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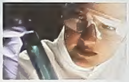
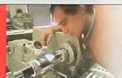
BDC

2001 annual report



BDC ▶ INNOVATING PRODUCTIVITY

THE PULSE
CANADIAN SMALL BUSINESS



Business Development Bank of Canada
que de développement du Canada

Canada

EAR IN REVIEW

Entrepreneurs reinvent the notion of productivity

>> Hull, Quebec-based i4design inc. develops interactive solutions and applications for public, private and transactional Web sites. The company's unique work methodology, Web Site Engineering, is the logical evolution of traditional Web site development, offering clients turnkey solutions, from strategic planning to project execution. BDC Innovation Financing was vital to developing a groundbreaking application, the DCP System™, that allows users to publish information on their own Web sites without technical knowledge. In the rapidly changing e-business world, i4design inc. has relied on its capacity to adapt to market demands and drive productivity.

>> Mississauga, Ontario-based Packall Packaging Inc. specializes in the manufacture of film used for flexible packaging, largely in the meat and dairy product industry. To be able to meet new customer demands and produce different types of film, the company innovated by upgrading its equipment with a BDC term loan. In the past two years, Packall Packaging Inc. has seen over 30 percent revenue growth because of new export business in the U.S. Today, the firm takes pride in the fact that it can deliver to customers quickly and at the same time maintain total quality.

>> Calgary, Alberta-based SUBNET Solutions Inc. specializes in communication protocols and secure remote networking solutions for the power utility sector and provides leading-edge software products and comprehensive engineering services. A BDC term loan was used to purchase new equipment to accommodate exponential growth. Last year, the company released Substation Explorer™, a powerful software package that allows remote access to data within an electrical substation, and improves productivity by reducing operating and maintenance costs.

Reaching out to the community

>> BDC continues its active involvement in the community through its "Growing with You" program which promotes local teams and sporting events for young people across the country. The Bank supports local sports because they promote its core values: hard work, perseverance, competitiveness and the determination to excel. What's more, employees throughout the company give their time and energy to making this program a success.

OUR MISSION

The Business Development Bank of Canada is a financial institution wholly owned by the Government of Canada. BDC plays a leadership role in delivering financial and consulting services to Canadian small business, with a particular focus on the technology and export sectors of the economy.

BDC's debt obligations are issued to the public and to private sector institutions and are secured by the Government of Canada.

OUR VISION

Make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

OUR KEY SERVICES

- Financial services (term loans)
- Subordinate financing
- Venture capital
- Consulting services
- BDC Connex® (financial products online)

Events that made a difference

The Honourable Brian Tobin Minister, Industry Canada

>> Small Business Week®, which recognizes the important contribution of the small business community to the Canadian economy, was an outstanding success in 2000. "CyberBiz: Innovations on the Leading Edge!" was the week's theme, acknowledging the Bank's increasing commitment to helping Canadians reap the benefits of the new economy. Some 40,000 people attended and participated in more than 400 different activities.

>> The Week also celebrated the achievements of entrepreneurs across the country through BDC's Young Entrepreneur Awards, which recognize the outstanding contributions of young business people. As is the tradition, winners were matched with a well-known business leader in their province or territory, who became a mentor for one year. The 2000 Gala was held in the Ottawa region and a Western Canada launch took place in Vancouver.

>> BDC also sponsors Info-Fairs throughout the year that are set up by Industry Canada. These events feature seminars and conferences that help small businesses share information and discuss pertinent issues, such as financing, e-business and knowledge-based skills training. Info-Fairs also inform small businesses about federal programs and services that are available at each stage of their growth.

Strategic alliances

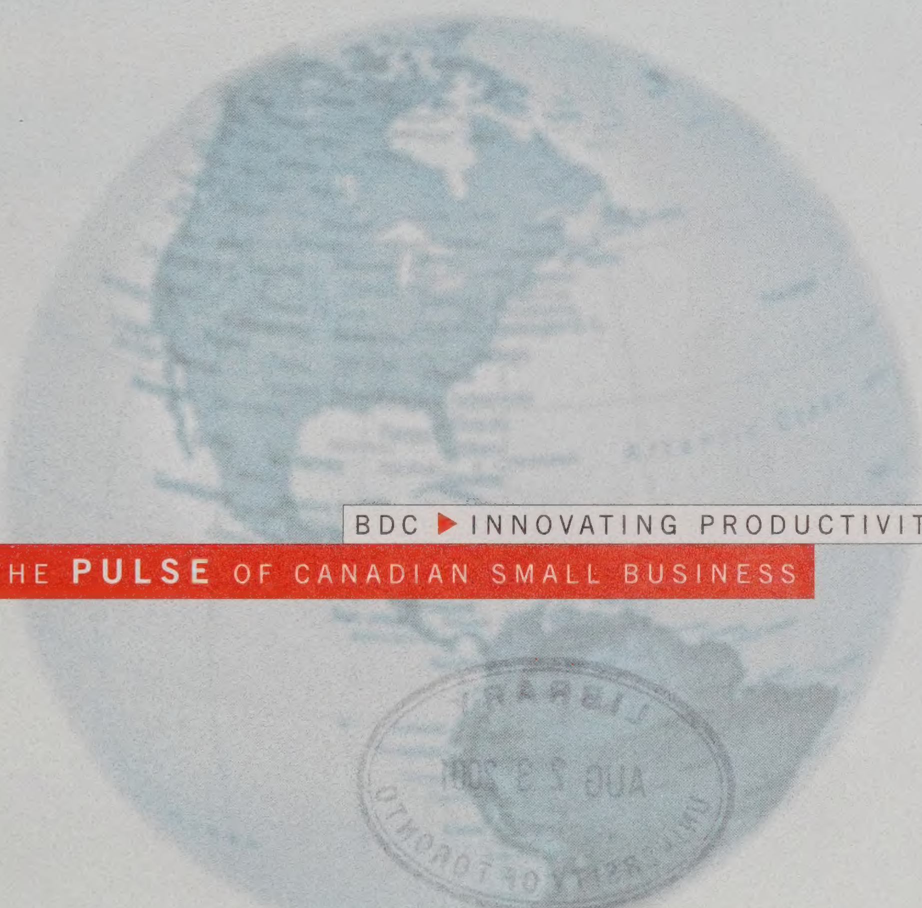
>> In a project initiated by Florence Mariage, Manager, Major Accounts at BDC, the Bank forged a strategic alliance with the Laurentian Bank of Canada. The goal was to better meet the needs of Canadian small businesses by giving them access to a full range of financial products and consulting services. A $100 million fund was pooled to support dynamic and growing businesses operating in the manufacturing sector, as well as the telecommunications, biotechnology and information technology sectors.

>> BDC and the Farm Credit Corporation (FCC) signed a partnership agreement to help agricultural businesses and farm-related companies grow and prosper. This partnership gives small businesses access to the seamless delivery of coordinated services from both Crown financial institutions. Today, FCC provides financing to primary agricultural and farm-related businesses.

>> BDC and Canada Economic Development (CED) are working in partnership to provide 200 Quebec small businesses access to the Bank's new e-strat program, designed to help entrepreneurs succeed in the e-business era. Offered by BDC Consulting Group, e-strat helps small businesses identify market opportunities and growth potential generated by the internet and respond with concrete strategies and action plans.

BDC ▶ INNOVATING PRODUCTIVITY

THE **PULSE** OF CANADIAN SMALL BUSINESS



We're there to boost productivity and growth

>> At BDC, we've taken the pulse of Canadian small businesses and the results are clear. Today, entrepreneurs are finding innovative ways to be more productive, by exploring export markets, maximizing use of the internet and motivating employees to excel. Whether it's e-business, manufacturing or tourism, small businesses in every sector are showing that productivity is really about thinking smarter, and reinventing what they do and how they do it, to grow bigger and better in the new economy.

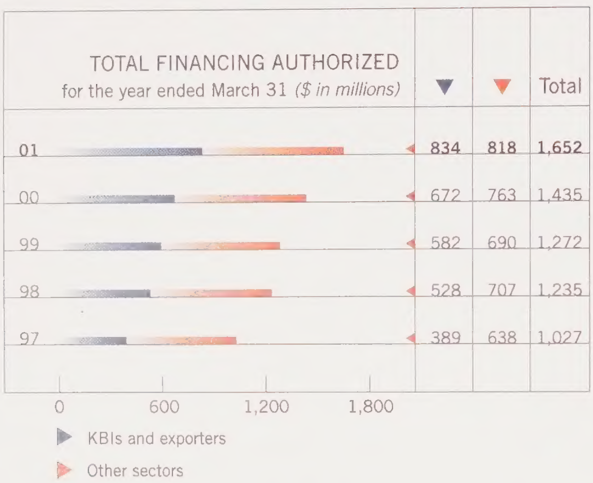
We're there with customized solutions

>> BDC is responding to small business needs by helping clients find new ways to manage business, improve quality and create sustainable value for customers. Throughout Canada, companies rely on the Bank's flexible financing solutions, from term loans to venture capital, to achieve leadership in their fields. To maintain their business momentum in the global race, entrepreneurs also come to us for a full range of management consulting services, from strategic planning to export advice.

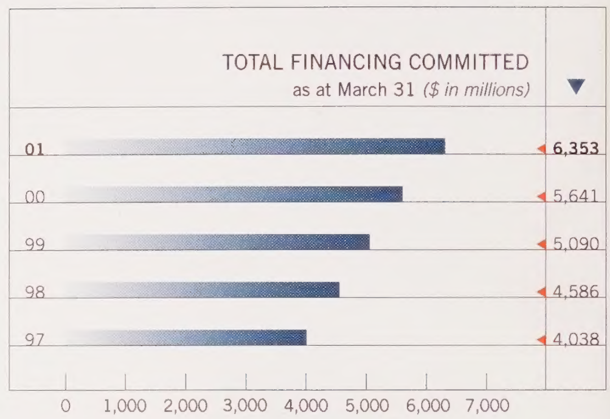
We're there to foster innovation

>> BDC understands the true meaning of entrepreneurial spirit—to take ideas and turn them into business opportunities. Whether that involves transforming products and services, tapping into employee creativity or bringing product breakthroughs to market, our financial solutions and expertise help thousands of companies innovate and develop their full potential in a fiercely competitive market.

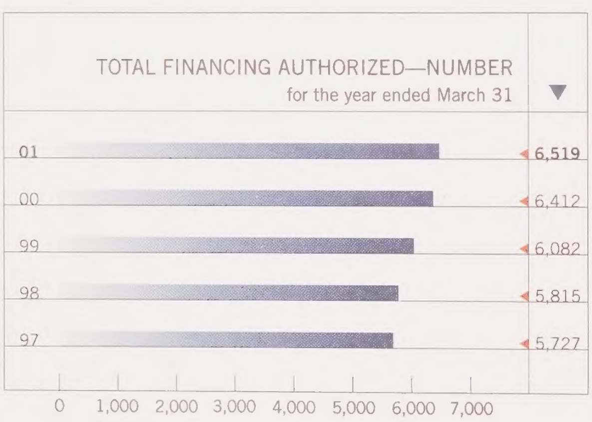
HIGHLIGHTS



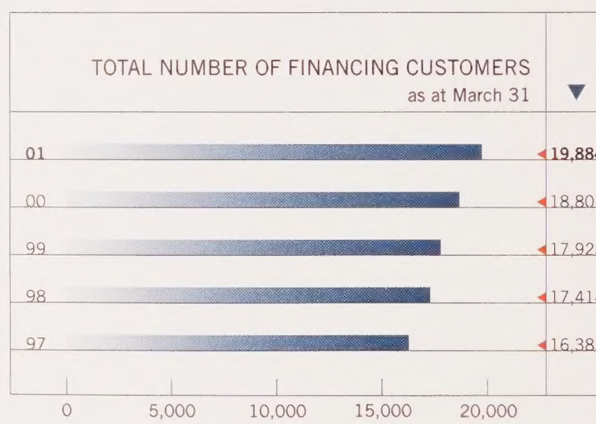
TOTAL FINANCING AUTHORIZED
for the year ended March 31 ($ in millions)
Total
01 834 818 1,652
00 672 763 1,435
99 582 690 1,272
98 528 707 1,235
97 389 638 1,027
0 600 1,200 1,800
KBIs and exporters
Other sectors



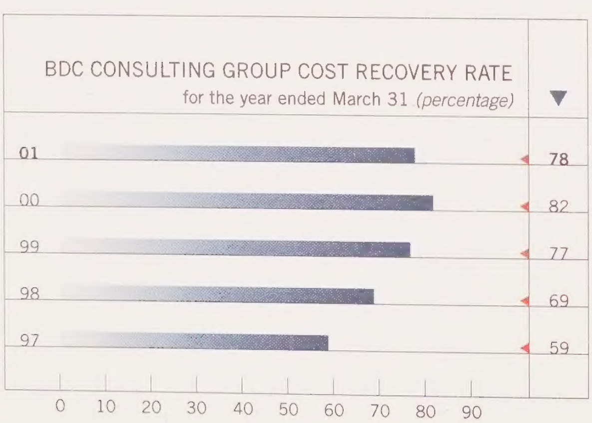
TOTAL FINANCING COMMITTED
as at March 31 ($ in millions)
01 6,353
00 5,641
99 5,090
98 4,586
97 4,038
0 1,000 2,000 3,000 4,000 5,000 6,000 7,000



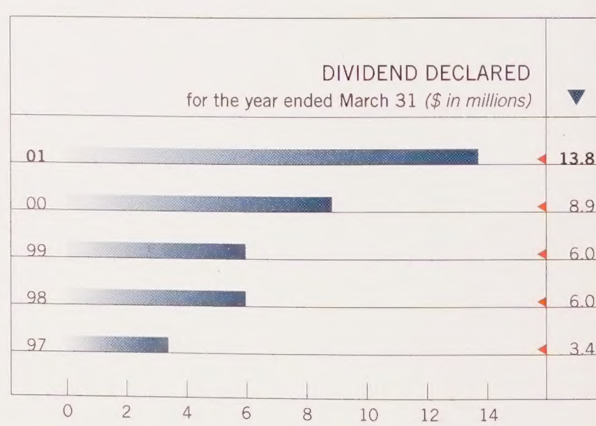
TOTAL FINANCING AUTHORIZED—NUMBER
for the year ended March 31
01 6,519
00 6,412
99 6,082
98 5,815
97 5,727
0 1,000 2,000 3,000 4,000 5,000 6,000 7,000



TOTAL NUMBER OF FINANCING CUSTOMERS
as at March 31
01 19,884
00 18,807
99 17,923
98 17,414
97 16,383
0 5,000 10,000 15,000 20,000

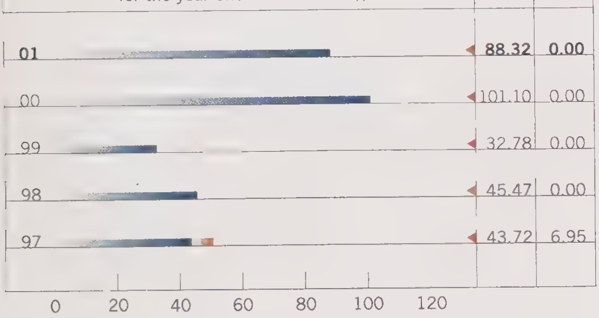


BDC CONSULTING GROUP COST RECOVERY RATE
for the year ended March 31 (percentage)
01 78
00 82
99 77
98 69
97 59
0 10 20 30 40 50 60 70 80 90



DIVIDEND DECLARED
for the year ended March 31 ($ in millions)
01 13.8
00 8.9
99 6.0
98 6.0
97 3.4
0 2 4 6 8 10 12 14

NET INCOME
for the year ended March 31 (*$ in millions*)

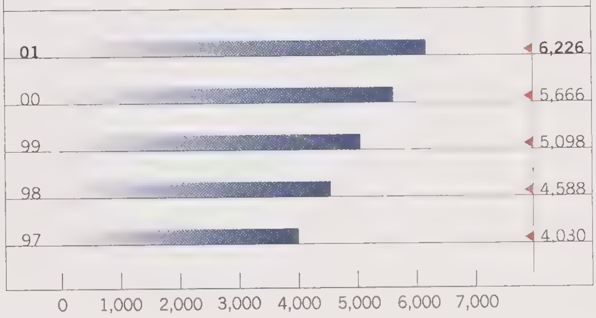


	▼	▼
01	**88.32**	**0.00**
00	101.10	0.00
99	32.78	0.00
98	45.47	0.00
97	43.72	6.95

▶ Net income (excluding Parliamentary appropriation)

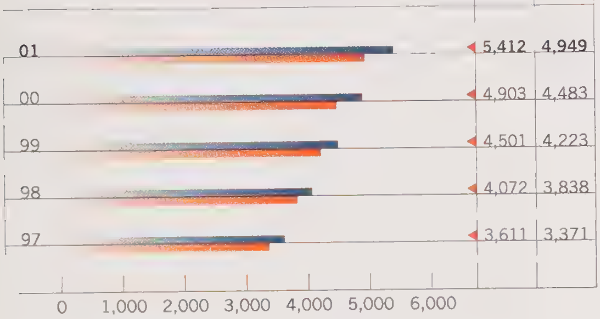
▶ Parliamentary appropriation

TOTAL ASSETS
as at March 31 (*$ in millions*)



	▼
01	**6,226**
00	5,666
99	5,098
98	4,588
97	4,030

TOTAL OUTSTANDING LOANS VS. BORROWINGS
as at March 31 (*$ in millions*)

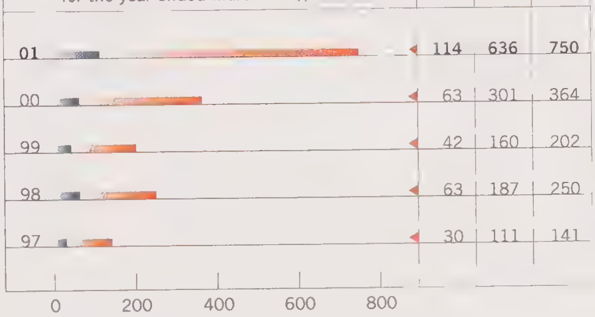


	▼	▼
01	**5,412**	**4,949**
00	4,903	4,483
99	4,501	4,223
98	4,072	3,838
97	3,611	3,371

▶ Loans

▶ Borrowings

TOTAL VALUE OF VENTURE CAPITAL PROJECTS FINANCED
for the year ended March 31 (*$ in millions*)

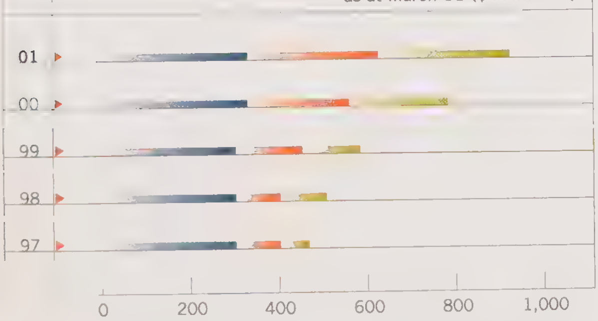


	▼	▼	Total
01	**114**	**636**	**750**
00	63	301	364
99	42	160	202
98	63	187	250
97	30	111	141

▶ BDC Venture Capital authorized

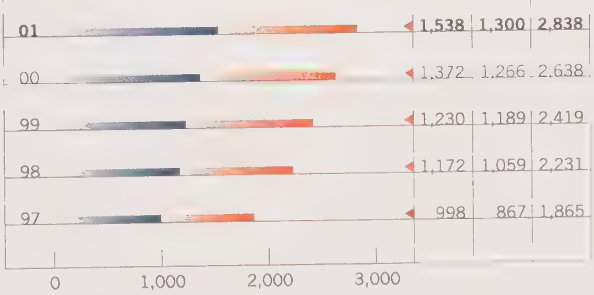
▶ Other sources of investment (estimated)

TOTAL SHAREHOLDER'S EQUITY
as at March 31 (*$ in millions*)



	Common shares ▼	Preferred shares ▼	Retained earnings ▼	Total shareholder's equity
01	**331.2**	**295.0**	**297.1**	**923.3**
00	331.2	230.0	222.6	783.8
99	303.4	150.0	130.4	583.8
98	303.4	100.0	103.7	507.1
97	303.4	100.0	64.2	467.6

TOTAL VALUE OF LENDING PROJECTS FINANCED
for the year ended March 31 (*$ in millions*)



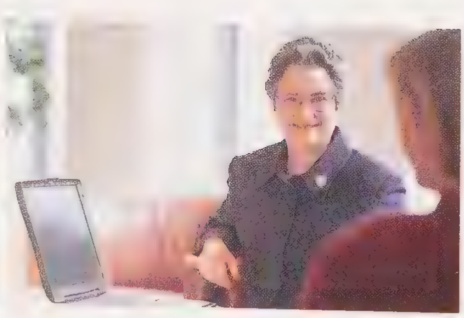
	▼	▼	Total
01	**1,538**	**1,300**	**2,838**
00	1,372	1,266	2,638
99	1,230	1,189	2,419
98	1,172	1,059	2,231
97	998	867	1,865

▶ BDC lending authorized

▶ Other sources of financing (estimated)

CHAIRMAN'S MESSAGE

'oining the Business Development Bank last year as Chairman of the Board was a great pleasure, especially at [illegible] an exciting time for small business in Canada. Small [illegible]nesses are experiencing rapid growth, enhancing their [illegible] capabilities, investing in innovation initiatives and [illegible] their productivity to succeed against global [illegible]



>> BDC is an organization dedicated to working with other financial institutions to offer complete business solutions to entrepreneurs in many industry sectors, and I am delighted to be a part of it.

>> The Bank's results for fiscal 2001 were very satisfactory. The overall performance was in line with its global corporate objectives and both management and employees are to be commended for their contribution to these strong results.

>> Net income of $88.3 million was the second highest posted by the Bank after last year's record level. The 12 percent increase in total lending authorized to over $1.5 billion was also a noteworthy achievement. Furthermore, the Bank declared a dividend of $13.8 million to the Government of Canada, compared to $8.9 million in fiscal 2000. This was the fifth consecutive annual dividend payment.

>> BDC is a complementary lender to commercial financial institutions, also offering venture capital and consulting services, and it works closely with its private sector counterparts, whose referrals represent a high percentage of its business. In addition, the Bank is active in the Aboriginal market and in supporting women entrepreneurs. In a nutshell, BDC fulfills a practical and useful purpose in the Canadian financial landscape—and acquits its responsibilities to both its shareholder and principal stakeholders in admirable fashion.

>> The Bank's significant contribution to knowledge-based industries (KBIs) and exporters over the past five years reflects the mandate it was given by Parliament. BDC is comfortable with its role and believes that its current mission is appropriate in the context of globalization and the emergence of the new economy. The very high level of satisfaction expressed by the Bank's clients in its annual surveys—88 percent for the last two years—is testimony to the pertinence and adequacy of the current mandate.

>> As Chairman, my role is to ensure the Bank meets and exceeds its objectives in relation to small business in Canada and that it adheres strictly to its corporate governance guidelines. Effective corporate governance helps BDC achieve its business objectives and satisfy the rigorous accountability requirements of Crown corporations. The Board of Directors, which represents the regions of Canada, small business and the federal government, is committed to strict management processes based on sound business principles. A committee of the Board of Directors reviews the Bank's corporate governance practices on a regular basis to ensure they reflect best current practices and that they provide an adequate framework for management and employees in the fulfillment of their responsibilities. The Governance Committee, with the support of the Board of Directors, will continue to refine policies and guidelines to ensure they keep pace with evolving needs.

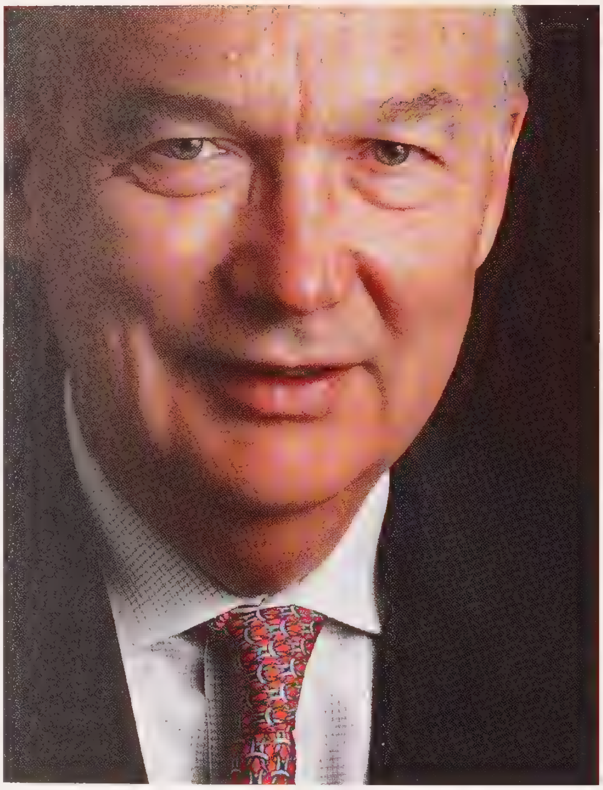
>> On a more personal note, I have always viewed BDC as an institution that plays an important complementary role in the Canadian financial system. My short time as Chairman has not only confirmed this view but also allowed me to meet some of the dedicated men and women who make the Bank such an effective institution.

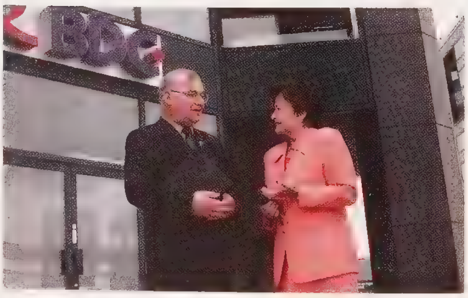
>> I take this opportunity to thank our Board of Directors and its committees for their thoroughness. A particular word of appreciation is extended to Gregory Sorbara who stepped down from his position as Director in April 2001. I also wish to acknowledge the contribution of Michel Vennat, President and Chief Executive Officer, as well as that of all BDC personnel for their commitment to the success of small business across our country.

Cedric E. Ritchie
Chairman of the Board

PRESIDENT'S MESSAGE

The Business Development Bank of Canada excelled, once again, in its efforts to support the start-up, development and expansion of Canadian small businesses and to assist them in strategic initiatives linked to innovation and productivity in fiscal 2001. Progress was made in all areas of activity, with some showing exceptional results. We increased the volume of lending, venture capital investments and consulting services in every region, particularly in Ontario and Western Canada. We made significant gains in our customer base right across the country, bringing the total number of clients close to the 20,000 mark.





>> Key to our success was the commitment of our 1,200 employees, dedicated to serving small and medium sized enterprises from coast to coast. Our results reflect the healthy Canadian economy, particularly the vitality of the small business sector. Despite a modest slowdown towards the end of 2000 and in early 2001, the Canadian economy remains one of the most robust among G7 countries. This success is attributable, in part, to business investment, mainly for the acquisition of information and communication technologies, as well as leading-edge industrial equipment. Vigorous export activity—a direct result of improvements in productivity and competitiveness—is yet another important success factor. As a Crown financial institution that works to stimulate innovation and exporting, BDC is proud of the contribution it has made.

Results meet expectations

>> For the fiscal year ended March 31, 2001, BDC's total lending commitment to Canadian small business increased by 11 percent to $6.1 billion. This is a new high for the Bank. During the course of the year, over $1.5 billion in new lending was authorized. The Bank's net income was $88.3 million, representing 12.6 percent return on common equity. The dividend declared to its shareholder, the Government of Canada, amounted to $13.8 million.

>> BDC continued to offer a wide range of flexible financial products to businesses in all industry sectors, while targeting certain strategic areas or niches. Total financing authorized to knowledge-based industries and exporters totaled $834 million in fiscal 2001, a 24 percent increase over the previous year, while their share of total financing, including venture capital investments, rose from 47 percent to 50 percent. The share of loans under $100,000 was 55 percent of total lending. In addition, the Bank continued to support women, Aboriginal groups and young entrepreneurs.

>> It was another record year for the Investment Group: 71 venture capital investments were authorized, for a total of $114 million, compared to 62 investments and $63 million in fiscal 2000. All of these investments went to new economy businesses, mainly in the biotechnology, medical/health, electronics, communications and information technology sectors. In addition, most of these businesses were in the start-up phase, where the level of risk is higher. At the end of fiscal 2001, the total commitment of venture capital investments was $296 million, a 52 percent increase compared to the previous year.

>> Guided by its mission to develop and offer practical and affordable consulting services, BDC Consulting Group saw an increase in fiscal 2001 in the number of small business consulting projects in line with the Bank's mandate. In fact, 5,660 consulting projects for small businesses were recorded this year, compared to 5,009 last year. The Group's core activities focused on four strategic areas: growth, quality, exports and e-business.

>> Net income for fiscal 2001 totaled $88.3 million, compared to $101.1 million the previous year. The contribution from venture capital was $56.2 million, compared to a record $80.0 million in 2000. Income from venture capital is subject to fluctuations based on market conditions and the degree of investee maturity.

Customer satisfaction

>> Customer service has always been a priority for BDC. We value the results of our annual customer satisfaction surveys as a strong indicator of how well we are meeting the needs of our clientele. We are pleased to say that 88 percent of customers who responded to the last survey were satisfied with the service they received from the Bank.

>> We are constantly looking for ways to deliver improved customer service. For example, the establishment of Entrepreneurship Centers improved efficiency in the management of loans under $250,000. BDC Connex® has enabled the Bank to accelerate its response time, while providing support to our personnel in the field. By demonstrating innovation in our services, we improve our own productivity and that of our customers.

A motivated and skilled workforce

>> Employee commitment is critical to the success of a service organization such as BDC. Our excellent showing in customer service speaks volumes about the dedication of the people who work at the Bank. We believe it takes motivated and skilled employees to deliver the service quality our customers have come to expect, and are committed to making BDC an "Employer of Choice."

>> During fiscal 2001, we invested a total of $4 million in employee training. In addition, the Bank supported the implementation of succession plans for a number of management level employees, thereby fostering professional fulfillment and development within the organization.

Innovation and productivity

>> As suggested by the theme of this year's annual report, innovation and productivity are key considerations for BDC. The two are intimately linked since, today, innovation is considered to be a key driver of productivity. In fact, innovative businesses show productivity increases that are six to nine times higher than companies that are not particularly innovative. Innovative businesses invest in research and development, adopt new manufacturing technologies and are open to e-business. When productivity increases, so does the competitiveness of a business, making it better able to face the challenges of market globalization.

>> At BDC, we are firmly committed to helping small businesses increase their productivity by offering products and services developed specifically for their needs. For example, the Productivity Plus Loan facilitates both the acquisition of leading-edge technology and related employee training. Another product is Innovation Financing, which targets innovative businesses seeking to carry out R&D, develop new export markets or establish a Web site. Canadian small businesses also have access to BDC's national network of consultants to help them plan their technology strategy or implement e-business solutions.

BDC's mandate

>> The Bank is a unique financial institution that plays a critical role by offering higher risk financing, repayable loans with flexible terms and affordable consulting services. Our services complement those of other Canadian financial institutions, with which we have approximately 40 agreements. Last year, we entered into new partnerships with the Laurentian Bank of Canada and the *Fédération des caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec.*

>> Another factor that makes BDC unique is that its products and services are exclusively targeted at small and medium sized businesses, including micro businesses. The small business sector is the backbone of the Canadian economy and the country's main driver of job creation. BDC supports small business development in all economic conditions.

>> As a Crown financial institution, BDC works with government departments and other public institutions to achieve economic development. While each of us has complete autonomy in our own activities, we focus as a group on common priorities such as innovation and productivity.

>> Nearly five years have passed since the Government of Canada modified our mandate, making BDC a complementary lender. Now, more than ever, BDC supports small business, KBIs, exporters and traditional business focused on growth, confirming its role in the new economy and globalization.

Michel Vennat

Michel Vennat
President and Chief Executive Officer

GLOBAL CORPORATE OBJECTIVES

The following table presents BDC's global corporate objectives, the corporate strategies used to support the objectives in fiscal 2001 and the results achieved against the planned performance objectives. These performance measures represent the main criteria against which the Bank's performance is measured. Fiscal 2002 planned corporate strategies and objectives are also presented.

Global Corporate Objectives	Corporate Strategies and Results Fiscal 2001	Corporate Strategies and Performance Objectives Fiscal 2002
Increase level of support to Canadian small businesses.	**Performance measurements** • **Amount outstanding in loan portfolio** **Actual: $5.4 billion** **Planned: $5.3 billion** • **Share of new authorizations (loans and venture capital) to KBIs and exporters** **Actual: 50%** **Planned: 47%**	**Performance objectives for fiscal 2002** • **Increase reach and grow portfolio to $5.9 billion.** • **Increase share of new financing authorizations to KBIs and exporters to 48 percent.**
	• Strong economic growth and increasing demand resulted in another record year for BDC lending activity. Net lending authorizations increased by 12 percent, which accelerated dollar growth in the outstanding loan portfolio, now comprising more than 19,000 Canadian small businesses. • Portfolio growth exceeded the planned target by $100 million. • BDC gained further ground in addressing the special financing requirements of KBIs and exporters, allowing the Bank to surpass the pre-established target.	• BDC will focus efforts on increasing reach to Canadian small businesses. • The Bank will refine its distribution network with a view to integrating its delivery channels (branches, Call Center, internet) to provide quality services to Canadian small businesses. • BDC will strive for further innovation in structuring solutions that meet the special needs of knowledge-based businesses and exporters. Subordinate financing and venture capital will play a significant role in achieving this objective as they support the special financing requirements of growing businesses in these sectors.

Global Corporate Objectives	Corporate Strategies and Results Fiscal 2001	Corporate Strategies and Performance Objectives Fiscal 2002
Transform the activities of BDC Consulting Group (CG) to respond to the specific needs of small businesses and be financially sustainable.	**Performance measurement** • **Cost recovery rate** **Actual: 78%** **Planned: 88%**	**Performance objectives for fiscal 2002** • **The performance measurement for CG has been changed from cost recovery to a more client focused indicator, revenues from activities.** • **The objective for fiscal 2002 is to increase revenues from activities to $20 million.**
	• Cost recovery reached 78 percent versus 88 percent targeted, due primarily to the introduction of new products in the market. Revenue from activities reached $17.7 million. • CG expanded its three existing lines of business, which focus on growth, quality and exports, and added a fourth line—e-business. • A new set of services geared to helping small business increase productivity using e-business was developed. This included the introduction of e-business readiness and relevance diagnostic tools for the BDC Web site, to help clients ascertain their e-business needs.	• CG will strive to improve the management ability of Canadian entrepreneurs, to help them grow their businesses. The Group will further integrate consulting solutions with BDC financing. • The recently developed e-business solutions will be fully launched to help small businesses enhance their productivity.
Deliver first-class customer service.	**Performance measurement** • **Customer satisfaction** **Actual: 88%** **Planned: 87%**	**Performance objectives for fiscal 2002** • **Customer satisfaction: 88%** • **Recognizing that employees are the key drivers of customer satisfaction, BDC is adopting the Employer of Choice strategy to its performance management framework. In fiscal 2002, the Bank will introduce Employee Commitment as a new indicator. The objective for the year is set at 63 percent.**
	• The Bank achieved a high level of customer satisfaction in fiscal 2001. • BDC's approach to quality customer service is to offer customized, innovative and flexible business solutions that meet the evolving needs of its small business clientele. • The Bank is presently undergoing a review of its delivery processes with a goal of enhancing the experience of customers and key contacts. • The Bank provided internet access to all employees as an additional tool to improve customer satisfaction.	• BDC plans to build stronger relationships with its customers and foster their long-term growth. • The Bank will continue to assess the needs of clients. • BDC will focus on developing new solutions aimed at helping its clientele adopt new technologies and know-how.

Global Corporate Objectives	Corporate Strategies and Results Fiscal 2001	Corporate Strategies and Performance Objectives Fiscal 2002
Maximize operating efficiency and cost effectiveness.	**Performance measurement** • **Productivity ratio (operating and administrative expenses as a percentage of net interest income)** **Actual: 53%** **Planned: 54%**	**Performance objective for fiscal 2002** • **Productivity ratio: 53%**
	• The Bank exceeded the planned productivity ratio target which was 54% versus 53% achieved (note that the lower the percentage, the greater the efficiency). • BDC Entrepreneurship Center activity was expanded, not only to meet the needs of smaller loans and business start-ups, but to deliver these services in the most cost-effective manner possible. • The Bank also implemented a number of new information technology systems, including: new loan processing, Human Resources, payroll, general ledger, BDC Consulting Group systems and the intranet.	• The Bank will integrate Web technologies into its current processes in order to give customers access to account information and online loans and to provide employees with efficient tools. • Further simplification of internal processes will help BDC achieve greater internal efficiency while reducing operating expenses. • The Bank will also enhance its enterprise risk management so that it continues to better manage and mitigate the risk inherent to its mandate, strategies and operations.
Generate return on common equity (ROE) at least equal to the Government's long-term cost of funds, and sufficient profits to build up equity for future growth.	**Performance measurements** • **Return on common equity (ROE)** **Actual: 12.6%** **Planned: 6.0%** • **Internal rate of return (IRR)** **Actual: 15.2%** **Planned: 6.3%**	**Performance objectives for fiscal 2002** • **Return on common equity (ROE): 6.1%** • **Internal rate of return (IRR): 15.0%**
	• BDC is mandated to generate a return on equity at least equal to the shareholder's long-term cost of funds and build up sufficient profit for future growth. Increasing equity is essential so that the Bank can extend its reach to Canadian small businesses within its mandate. It also allows the Bank to take greater risks in KBI lending. • Higher returns generated in fiscal 2001 are mainly attributable to the strong performance of venture capital activities. • BDC maintains a prudent level of allowance for credit losses that reflects the riskier nature of its financing activities. In fiscal 2001, the provision for credit losses charge of $106 million included an additional general provision of $15 million more than planned. • Over the past year, the Bank modified the calculation of IRR using a moving 10 year average IRR based on total assets which will produce a more meaningful measure of performance of capital invested (note that this method includes injections of capital, cash and dividend payments). In fiscal 2001, IRR exceeded target due to favourable divestitures.	• BDC expects to earn a return on common shareholder's equity at least equal to the Government's long-term cost of funds—currently around 6 percent. • The Bank aims to increase leverage by attracting partners, especially in co-financings. • A major strategy of BDC Investment Group will be to invest $50 million in a specialized fund designed to support private funds in line with the Bank's sectorial focus, thus creating a new channel of financing for small knowledge-based businesses. • BDC will also explore options to assist in the commercialization of university research.

BDC's raison d'être

>> Committed to helping Canadian small businesses drive growth, BDC continued to provide services tailored to the unique needs of entrepreneurs with a particular focus on productivity in fiscal 2001.

>> The Bank provided financing solutions and consulting services to nearly 20,000 Canadian small businesses. Many of these solutions and services centered on productivity because if Canadian businesses are to maintain their place in the global race and contribute to the country's prosperity, this is where they need to concentrate their efforts.

>> Overall, it was an excellent year for the Bank with significant venture capital results contributing to strong performance. In line with BDC's mandate, the profits generated by the Bank will increase BDC's equity, enabling the Bank to do even more to support the growth of Canadian small businesses.

Adding value in the marketplace

>> BDC fulfills a vital need in the marketplace by complementing the services of commercial financial institutions. The Bank's higher loan coverage for capital investments, financing of developing markets and financing of working capital on a long-term basis are among the features that make it one of the few financial institutions committed to pricing to risk.

>> Small businesses know that they can count on BDC's flexibility to help increase their chances of success. The Bank evaluates each business plan to determine each company's growth potential and provides financing that is customized to development needs. Subordinate financing, for example, helps companies increase working capital and offers flexible repayment terms.

>> Knowledge-based industries and exporters also benefit from specific resources dedicated to financing their creation and growth in recognition of the increasing importance of these sectors to the Canadian economy. As well, BDC has developed a true expertise in serving businesses with non-traditional financing needs.

>> Access to the Bank's products and services is also available to small businesses throughout Canada through a multi-channel network of more than 80 branches across the country and BDC Connex®, the virtual branch that provides online service.

Providing business advice and guidance

>> In fiscal 2001, BDC customers continued to take advantage of the Bank's professional consulting services. BDC Consulting Group provided them with practical and affordable advice and guidance specifically designed to contribute to the success of entrepreneurs.

>> BDC also developed the expertise of employees, opening up opportunities to enhance their skills in key areas such as e-business and demonstrating the Bank's commitment to being an "Employer of Choice."

>> The more specific needs of certain sectors of the small business community were served through the Bank's special initiatives, designed to support developing markets such as the Aboriginal sector and young entrepreneurs. All sectors benefited from the Bank's emphasis on forging strategic alliances to better serve the small business community.

Loans

>> Lending authorized reached $1,538 million in fiscal 2001, an increase of 12 percent from the previous year. Of the total increase in lending, 8 percent came from the KBI and export sector, and 4 percent from other sectors. Loans authorized to KBIs and exporters increased by $111 million in fiscal 2001, from $609 million to $720 million. Total share of lending to this new economy was 47 percent, 3 percent higher than the previous year.

>> As at March 31, 2001, total lending committed increased by more than $600 million over the previous year from $5,446 million to $6,057 million.

TOTAL LENDING AUTHORIZED
for the year ended March 31 *($ in millions)*

	KBIs and exporters	Other sectors	Total
01	**720**	**818**	**1,538**
00	609	763	1,372
99	540	690	1,230
98	465	707	1,172
97	359	639	998

0 300 600 900 1,200 1,500

▶ KBIs and exporters

▶ Other sectors

TOTAL LENDING COMMITTED
as at March 31 *($ in millions)*

01	**6,057**
00	5,446
99	4,933
98	4,461
97	3,965

0 1,000 2,000 3,000 4,000 5,000 6,000 7,000

LENDING AUTHORIZED—CLASSIFICATION BY INDUSTRY
for the year ended March 31 *(number)*

	2001	2000
Manufacturing	**1,734**	1,438
Wholesale and retail trade	**1,155**	1,047
Tourism	**516**	576
Business services	**501**	429
Agriculture and related	**410**	422
Construction	**413**	423
Commercial properties	**220**	296
Transportation and storage	**198**	205
Other	**670**	595
N/A* (Global Line of Credit)	**631**	919
Total	**6,448**	6,350

0 400 800 1,200 1,600 2,000

* not available by industry

LENDING AUTHORIZED—CLASSIFICATION BY INDUSTRY
for the year ended March 31 *($ in millions)*

	2001	2000
Manufacturing	**615**	487
Wholesale and retail trade	**287**	257
Tourism	**184**	179
Business services	**68**	61
Agriculture and related	**15**	11
Construction	**63**	64
Commercial properties	**93**	121
Transportation and storage	**61**	66
Other	**149**	121
N/A* (Global Line of Credit)	**3**	5
Total	**1,538**	1,372

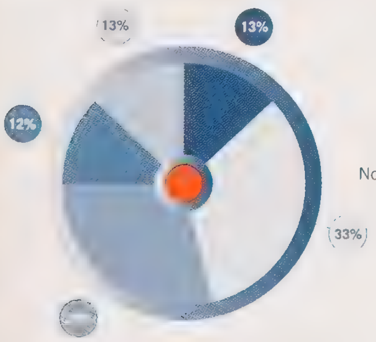
0 100 200 300 400 500 600 700

* not available by industry

COMMITMENT TO LENDING CUSTOMERS • CLASSIFICATION BY PROVINCE OR TERRITORY

as at March 31		2001		2000
	Number of customers	**Amount ($ in millions)**	Number of customers	Amount ($ in millions)
Newfoundland	**916**	**202**	906	181
Prince Edward Island	**157**	**49**	160	47
Nova Scotia	**618**	**127**	587	116
New Brunswick	**902**	**232**	886	209
Quebec	**6,564**	**2,472**	5,991	2,222
Ontario	**5,624**	**1,742**	5,122	1,484
Manitoba	**502**	**103**	508	109
Saskatchewan	**576**	**116**	575	114
Alberta	**1,249**	**356**	1,202	304
Northwest Territories and Nunavut	**84**	**30**	87	29
British Columbia	**2,442**	**601**	2,555	600
Yukon	**119**	**27**	129	31
Total	**19,753**	**6,057**	18,708	5,446

DISTRIBUTION OF LENDING CUSTOMERS BY GEOGRAPHIC AREA
as at March 31, 2001



Atlantic Provinces	13%
Quebec	33%
Ontario	29%
Prairies, Northwest Territories and Nunavut	12%
British Columbia and Yukon	13%

Subordinate financing

>> As this segment of the financial services industry is relatively less developed in Canada than in the U.S., BDC's role has always been that of an innovative leader. The Bank complements the small number of lenders in this market by focusing its attention on fast-growing, innovative exporters mainly in the manufacturing sector. BDC concentrates on smaller first round financing than does the rest of the industry and provides terms and conditions based on the specific needs of the business.

>> In addition, our new product—Innovation Financing providing loans of up to $250,000—is designed to help innovative businesses position themselves to take advantage of new markets and technologies available to today's global players. This loan helps businesses adapt to ever-changing rules, develop innovation strategies and invent new products to improve their chances of success.

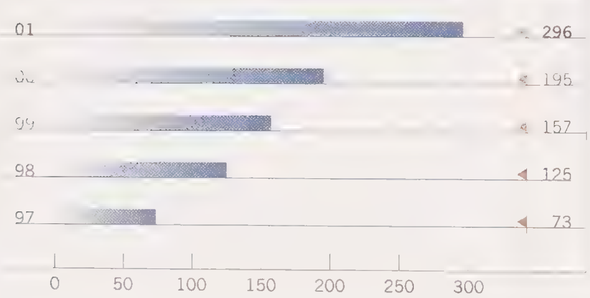
>> Including innovation loans, BDC authorized 377 transactions, totaling nearly $70 million in subordinate financing in fiscal 2001.

REVIEW OF ACTIVITIES

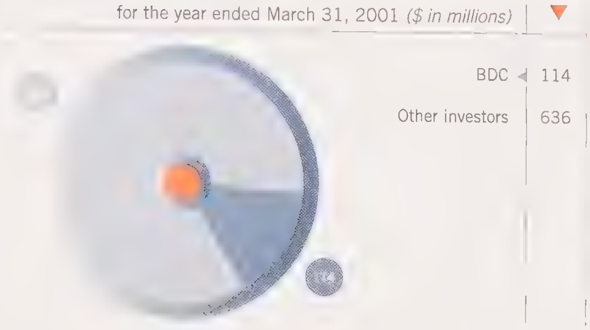
Venture capital

>> The Bank's venture capital activities in fiscal 2001 represented a record year. BDC's venture capital commitment at year end totaled $296 million, compared to $195 million in the previous year—an increase of over 50 percent. To enhance clients' access to venture capital and to provide additional network expertise, BDC also partners with co-investors. In fiscal 2001, investee companies received an estimated additional $636 million from other investors, for a total of $750 million in approvals.

VENTURE CAPITAL COMMITMENT
as at March 31 *($ in millions)*

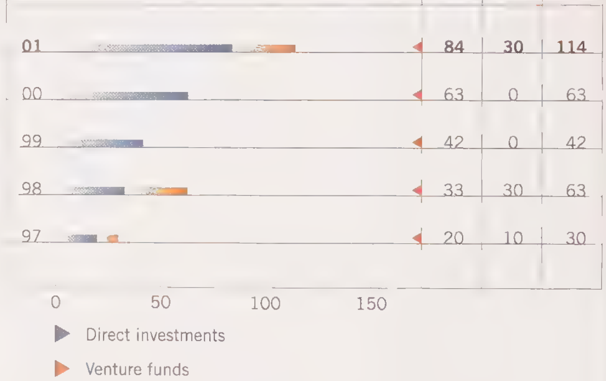


VENTURE CAPITAL LEVERAGE
for the year ended March 31, 2001 *($ in millions)*



>> BDC continues to actively invest in KBIs at every stage of growth from seed through expansion. During fiscal 2001, the Bank authorized 71 venture capital investments for a total of $114 million, compared to 62 investments for $63 million in fiscal 2000. As well, as at March 31, 2001, 99 percent of the Bank's venture capital commitment was directed to KBIs, largely in the biotechnology, medical/health, electronics, communications and computer-related industries.

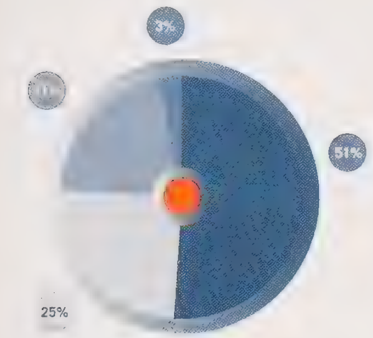
VENTURE CAPITAL INVESTMENTS AUTHORIZED
for the year ended March 31 *($ in millions)*



>> As demonstrated in the 2000 annual survey commissioned by BDC, *Economic Impact of Venture Capital,* venture-backed companies are usually high-growth businesses that perform much better than the economy as a whole. From 1995 to 1999, venture-backed businesses showed a substantial average compound annual growth rate in terms of employment (39 percent), sales (31 percent), exports (38 percent) and R&D (52 percent).

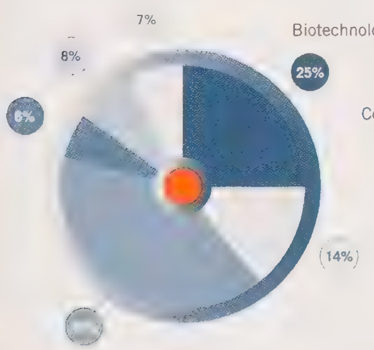
>> In fiscal 2001, 76 percent of BDC's venture capital investments authorized were directed to companies in either the start-up, seed or development stage. This reflects the Bank's commitment to financing highly promising, early stage or exponential growth companies. Moreover, on average, BDC's venture capital portfolio is made up of twice as many young accounts as the entire Canadian venture capital industry's portfolio.

NUMBER OF VENTURE CAPITAL INVESTMENTS AUTHORIZED
CLASSIFICATION BY STAGE OF DEVELOPMENT
for the year ended March 31, 2001



Start-up / Seed	51%
Development	25%
Expansion	21%
Turnaround	3%

VENTURE CAPITAL CUSTOMERS
CLASSIFICATION BY INDUSTRY
as at March 31, 2001



Biotechnology/medical/health	25%
Electronics	14%
Communication and computer related	40%
Industrial	6%
Other industries	8%
Venture funds	7%

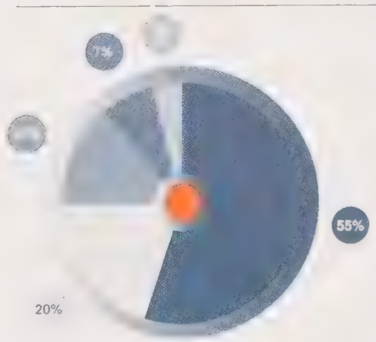
Responding to the needs of smaller businesses

>> BDC has an unwavering commitment to small business, and this is certainly evident with the results of fiscal 2001. The volume of lending authorized increased by 12 percent to over $1.5 billion this past year, and 75 percent of the transactions were for loans of $250,000 or less and including the Global Line of Credit®, 55 percent of transactions were for amounts of $100,000 or less.

>> As an integral part of its lending strategy, BDC provides micro businesses financial support through products such as the Micro Business Program and the Young Entrepreneur Financing Program. As well, Student Business Loans and the Global Line of Credit® are both offered online by BDC Connex®, the Bank's virtual branch.

>> In order to enhance service to small businesses, BDC expanded its network of Entrepreneurship Centers. This past year, the 20 centers, which focus on start-up and growing companies particularly in the knowledge-based and manufacturing sectors, also saw strong growth activity. Lending volume through the Centers more than doubled from $28 million to $58 million in fiscal 2001.

LENDING AUTHORIZED—CLASSIFICATION BY SIZE
for the year ended March 31, 2001



$100,000 or less	55%
Over $100,000 to $250,000	20%
Over $250,000 to $500,000	14%
Over $500,000 to $1,000,000	7%
Over $1,000,000	4%

>> Working in tandem with the Entrepreneurship Centers, BDC Consulting Group continued to provide sound advice to young entrepreneurs and micro business clients in order to maximize their success. The Group's services were highly pertinent since most failures among start-ups and young businesses occur due to a lack of efficient management practices.

>> By employing a customer-driven focus in the design of its financial products and services, the Bank has chosen an approach that is already delivering solid results for micro business clients.

Always evolving to meet customer needs

>> Getting closer to customers and responding to their needs was one of BDC's key priorities in fiscal 2001. After all, the Bank's success is ultimately defined by the added value it offers small businesses across the country.

Customized and innovative business solutions

>> The Bank regularly adapts its products and management solutions to respond to changing market demands, and monitoring industry trends is an integral part of this.

>> To reinforce its role in helping small businesses drive productivity, the Bank stepped up efforts to promote the Productivity Plus Loan, which is designed to help sound, export-focused manufacturing companies obtain technology-enhanced equipment. Along with 100 percent financing to purchase equipment and tooling, a small business can receive a further 25 percent for costs related to installing and assembling the equipment and training employees who will use it. Loans typically range from $50,000 to $5 million. In fiscal 2001, BDC granted more than 200 such loans for a total of $98 million.

>> In line with the Bank's key role in driving innovation in the small business sector, BDC introduced Innovation Financing in fiscal 2000 for entrepreneurs looking to stimulate growth, finance R&D costs, expand into new export markets or adopt quality management solutions. This specific product provides financing of up to $250,000 for working capital purposes. In fiscal 2001, BDC granted 326 such loans, which represents a substantial increase of 285 loans over last year, for a total of $37 million.

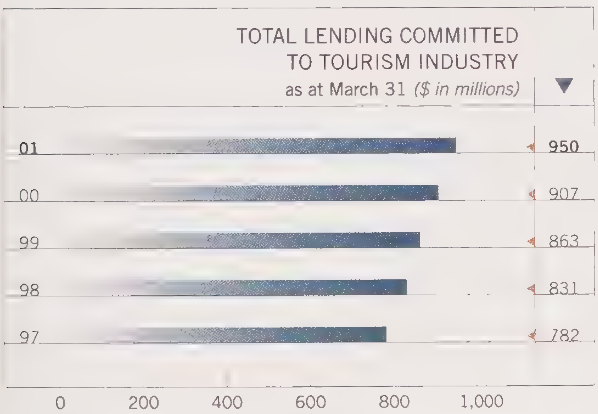
e-business at the top of the Bank's agenda

>> e-business has become a priority for the Bank, particularly because the internet can dramatically improve productivity in the small business realm. On the small business customer front, BDC held conferences with thousands of entrepreneurs to increase awareness of e-business. It also sponsored a how-to guide on business-to-business (B2B) strategies for small and medium sized companies. The Bank also launched a new section on its Web site that enables local representatives and professionals to present customer proposals to BDC. The Bank can now fulfill loan requests anytime and anywhere, greatly improving its responsiveness.

>> BDC Connex® uses the Web as a business channel, which continues to be a popular choice with customers. In addition, BDC is committed to ensuring employees increase their knowledge of the Web and use it for research and marketing. The Bank has made the internet available to all employees and incorporated the Web into its recruitment process.

Excellent performance in the tourism sector

>> Tourism continues to be the third largest sector in BDC lending activity. In fiscal 2001, the Bank authorized loans totaling $184 million to tourism businesses. As at March 31, total commitments to this industry had reached $950 million, a $43 million increase from a year ago. Tourism is one of the fastest growing industries in Canada and around the world. As this industry has become more sophisticated and innovative, BDC has adapted its Tourism Investment Fund to respond to these changes.

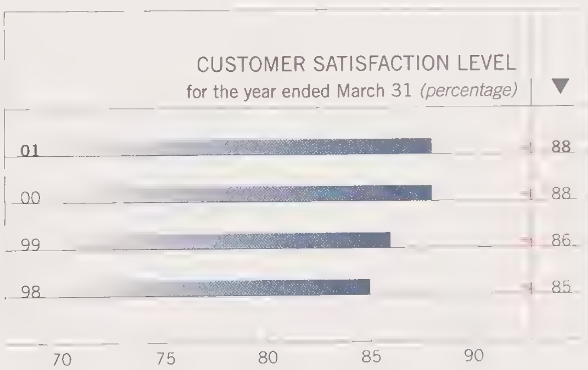


A customer-focused Bank demands quality people

>> The success of the Bank certainly lies in the quality of its workforce, and BDC's employees are showing their unwavering dedication to the organization and its customers. Through a diversity of internal programs that recognizes the exceptional contributions of employees, BDC continues to reinforce its commitment to being an "Employer of Choice."

>> The Bank adheres to its philosophy that trained and motivated employees deliver the best customer service. In fiscal 2001, BDC invested approximately $4 million in training addressing key areas such as language, the internet and leadership. An exemplary training initiative was the Banff Conference that gave 225 employees an opportunity to develop skills needed to succeed in today's business environment.

>> In fiscal 2001, our annual customer satisfaction survey again showed very positive results, with 88 percent of clients satisfied with the Bank's service.



BDC Consulting Group

>> BDC Consulting Group continued to meet the changing needs of Canadian small businesses in fiscal 2001 by developing and providing practical and affordable consulting services that help drive productivity and growth. Last year, the Group increased consulting projects for small and medium sized businesses from 5,009 to 5,660.

>> Major accomplishments included expansion of the Group's three existing lines of business focused on growth, quality and exports, and the addition of a fourth line—e-business.

Growth

>> The Group's Growth Potential Assessment, or GPA, which allows owners to obtain a comprehensive review of their business strengths and weaknesses in a variety of areas including productivity-related issues, has proven to be one of the most popular services developed by BDC Consulting Group. The Tech Strategy Program, which emphasizes the use of technology to improve productivity, is also being employed by entrepreneurs.

Quality

>> The Group continued to provide consulting services to improve quality and ultimately help companies compete for international contracts. To date, BDC Consulting Group has provided these services to over 1,000 companies that have become ISO certified. Adoption of the new ISO 9000:2000 standard in January 2001 quickly translated into a new service offering by the Group. Complementary to that service are the Group's HACCP quality solution for the agri-food sector and the ISO 14000 solution for environmental concerns.

Exports

>> In addition to offering its New Exporter Program (NEXPRO) and market study services, the Group reinvigorated its export line through the signature of a new agreement with the Forum for International Trade Training (FITT). The agreement allows the Bank to use and adapt the Forum's new export training program for BDC customers.

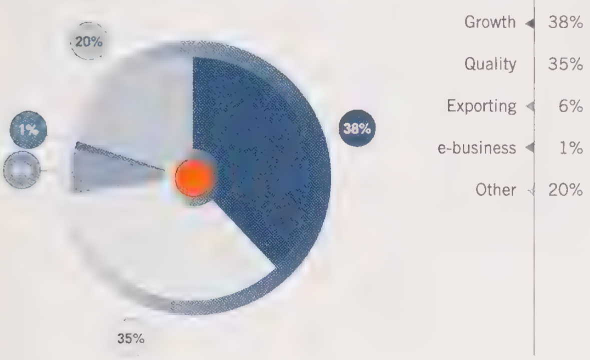
e-business

>> With e-business rapidly redefining the way business is conducted, BDC Consulting Group made e-business an objective in fiscal 2001. The Group responded to the request for help, developing fundamental e-business strategies by introducing an e-strat program consisting of information modules designed to help entrepreneurs devise sound e-strategies. In addition, it developed e-business readiness and relevance diagnostic tools on the BDC Web site, allowing entrepreneurs to handle their own online e-business diagnoses.

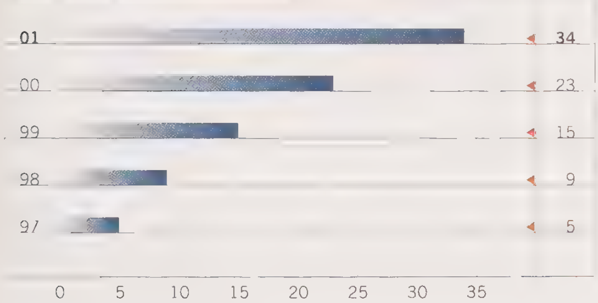
>> BDC Consulting Group revenues in fiscal 2001 were $17.7 million, 80 percent of which were derived from services provided directly to small businesses. This represents a slight increase over last year. However, revenues from internal sources decreased from $5.3 million to $3.5 million.

>> Revenues from the Group's growth line of business accounted for 38 percent of these revenues, while quality management revenues represented 35 percent, exporting 6 percent and other areas, 21 percent. Figures for fiscal 2001 also show that BDC Consulting Group's repeat business reached 34 percent, compared to 23 percent in fiscal 2000. This reflects a high level of customer satisfaction with the quality and pertinence of the Group's services.

CONSULTING GROUP REVENUE BY ACTIVITY
for the year ended March 31, 2001



CONSULTING GROUP REPEAT BUSINESS
for the year ended March 31 *(percentage)*



The BDC distinction

>> BDC Consulting Group continues to be an active member of the Canadian Association of Management Consultants and the *Ordre des administrateurs agréés du Québec.* In fiscal 2001, seventeen employees from the group qualified to receive their Certified Management Consultant designation.

>> In addition, the Group continued to respond to client needs with a new, decentralized structure that puts more emphasis on the development of new products and services at the local level, a hallmark of the Group.

Strategic alliances

>> As a complementary lender, BDC focuses on forging strategic alliances to better serve the small business community.

>> To date BDC has entered into more than 40 strategic alliances with partners ranging from chartered banks and venture capital investment funds to government departments and Crown corporations.

>> BDC Consulting Group has also developed partnerships with Canada Economic Development for Quebec Regions, ACOA and FedNor to support its e-strat program, as well as with the National Research Council of Canada and the Quebec Order of Engineers to support its Tech Strategy Program.

Joining forces with financial institutions

>> The Bank's strategic alliances with financial institutions take many forms, but all have one goal in common: to provide small businesses increased access to the financing they need.

>> In fiscal 2001, BDC forged partnerships with the Laurentian Bank of Canada and the *Fédération des Caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec.* Examples of solutions developed with financial institutions include BDC offering its Global Line of Credit® to clients, together with the Toronto-Dominion Bank, credit unions referring small business clients to BDC to meet their full financing needs and Sun Life of Canada offering insurance on BDC loans.

Innovating with private organizations

>> BDC has been instrumental in increasing the amount of capital for the venture capital market. BDC has set aside additional funding for early stage technology venture funds which will be leveraged with funding from third party sources.

>> BDC also has partnership agreements with several business associations, whereby BDC provides consulting services to their members.

Teaming up with Government departments and Crown corporations

>> BDC continued its partnership agreements with the Canadian Tourism Commission, the National Research Council of Canada and the regional economic development agencies to increase cooperation and cross-referral of clients.

>> BDC also uses its network and staff for cost-effective delivery of commercially based financing programs. For example, the Bank delivers the Student Business Loans Program online via BDC Connex® on behalf of Human Resources Development Canada (HRDC). This long-standing partnership has, for many years, been helping students create and run a summer business with the help of interest-free loans. In fiscal 2001, over 700 such loans were authorized to budding Canadian entrepreneurs.

>> Ongoing partnerships with BDC's sister financial Crown corporations are assured by the Council of Crown Financial Institutions.

In addition to BDC, members include the Canadian Commercial Corporation, the Export Development Corporation and the Farm Credit Corporation. The Council focuses on improving customer service and avoiding or reducing overlap and duplication among Crown corporations.

>> BDC has a separate agreement with the Farm Credit Corporation to coordinate the services to help agri-business and farming-related businesses grow and prosper.

Meeting the needs of developing markets

>> Promoting and supporting the growth of small businesses in developing markets remained a key objective for BDC in fiscal 2001 with the Bank putting special emphasis on helping three growing sectors of the Canadian economy: the Aboriginal sector, young entrepreneurs and women.

The growing Aboriginal market

>> BDC continued to increase its level of activity in the Aboriginal market through its Aboriginal Banking Unit. Total lending committed to support Aboriginal business at year end reached $40 million, an increase of 80 percent since fiscal 1995.

>> Accomplishments in fiscal 2001 included the creation of Aboriginal Business Services, the recruiting of a network of Aboriginal management consultants and the development of consulting services for the Aboriginal market. One initiative to promote Aboriginal economic development introduced during the year was a pilot project to help the Membertou First Nation Band Administration obtain ISO certification, which would make it the first band in North America to be ISO-certified. Another innovative idea called E-Spirit resulted in the development of a national internet-based Aboriginal Youth Business Plan Competition. A total of about 300 students registered for the competition targeting grades 10 to 12.

>> The Bank also sponsored and delivered a series of presentations entitled, "How to effectively deal with banks" through on-reserve economic development organizations. It launched the BDC Aboriginal Banking Newsletter, dedicated to Aboriginal entrepreneurs and focusing on issues relevant to Aboriginal economic development.

Celebrating the entrepreneurial spirit across Canada

>> Following the tradition of the last 22 years, BDC once again proudly organized Small Business Week. The theme, "CyberBiz, Innovations on the Leading Edge!", served to reinforce the Bank's commitment to helping Canadians reap their fair share of the benefits of the new economy. One of the highlights of the Week was the Young Entrepreneur Awards ceremony. It provided the opportunity to celebrate the entrepreneurial spirit of the new generation and honour successful business leaders, aged 30 and under from every province and territory.

>> Each of the winning 13 entrepreneurs was matched for a full year with a prominent business leader under a mentor program. One of the winners also received the Export Achievement Award, presented by the Export Development Corporation to the small business that had best opened up new international markets.

>> Numbers tell the story when it comes to BDC's emphasis on youth-owned business. In fiscal 2001, BDC authorized over 1,000 loans to support youth-owned business for a total amount of $92 million.

Growth in women-owned businesses

>> Women entrepreneurs are another of BDC's target markets. The Bank recognizes that women-owned firms constitute a fast growing and important segment of the small business world. In fiscal 2001, BDC made 1,400 lending transactions to women-owned businesses for a total amount of $277 million, a $43 million increase from the previous year. The Bank will continue to work with women entrepreneurs, who are a driving force in the Canadian economy both as business owners and as employers.

Multi-channel communications

>> All small business owners have the opportunity to discuss and learn more about important issues at BDC-sponsored Info-Fairs organized by Industry Canada across Canada. These events provide a forum for discussion and distribution of information on relevant Government products, programs and services.

>> Other sources of information for small business owners provided by the Bank include its Web site (www.bdc.ca) and publications such as *Profit$* magazine and *BDC News OnLine*. In addition to a comprehensive virtual library of information useful to new and more experienced entrepreneurs, the BDC Web site also provides tools designed to help small business owners assess their skills and the feasibility of their ideas.

BDC employees behind small business growth

Known for their unwavering dedication and professionalism, BDC employees are key to the Bank's success. Attention to customer service is at the very heart of everything they do. They play an essential role in helping drive small business productivity and growth by listening and responding effectively to the needs of Canada's entrepreneurs.

Mario Larouche, Area Branch Manager, BDC Connex®

>> "In today's demanding business world, timely and convenient access to financing is vital, so we've worked hard at BDC Connex® to improve our internal work processes and our response time with our customers. Right across the country, more and more clients are seeing our service enhancements."

Shirley Bennie, Area Branch Manager, Vancouver and Anne Chong Hill, President, Global Gourmet Foods Inc.

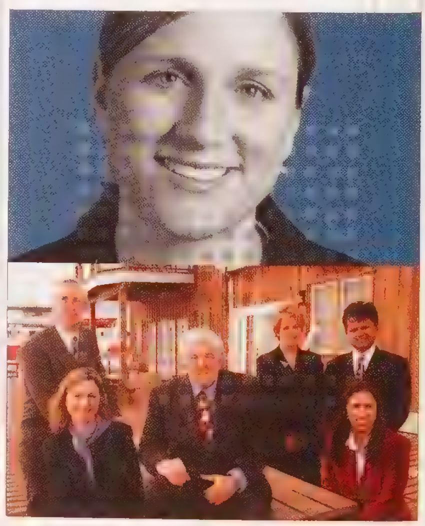
>> "When you can see the rapid growth of a company like Global Gourmet Foods, it's real proof that you're innovating for your clients and helping them improve productivity. To be more responsive to the needs of companies like this one, our branch uses BDC Connex® to facilitate faster credit checks, which also means quicker turnaround for lending."

Lise Gauthier, Director, Planning and Performance Management, BDC Consulting Group, Montreal and Pierre Landry, General Manager, *Ordre des administrateurs agréés du Québec*

>> Lise Gauthier was one of seventeen employees from BDC Consulting Group to receive a Certified Management Consultant designation from the Canadian Association of Management Consultants as well as from the *Ordre des administrateurs agréés du Québec*. She achieved the highest marks on the exam in Quebec.

Susan Rohac, Manager, Subordinate Financing, Ottawa and Hugh Lawford, President, Quicklaw; Meena Mackie, CFO, Quicklaw; Chuck Smith, Branch Manager, BDC, Kingston; Susan Thurlow, Account Manager, BDC, Kingston; Shai Dubey, COO and Corporate Counsel, Quicklaw

"We truly believe in Quicklaw Inc., the world's first online legal information service. We have backed this company since its inception years ago. A recent round of Subordinate Financing has helped the firm enter the U.S. market, expand its collection of databases and develop new technologies. It feels great to be behind such an innovative company."



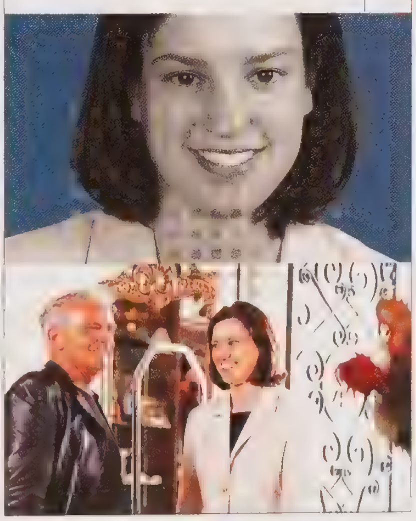
Maurice Montreuil, Manager, Aboriginal Business Services, Winnipeg

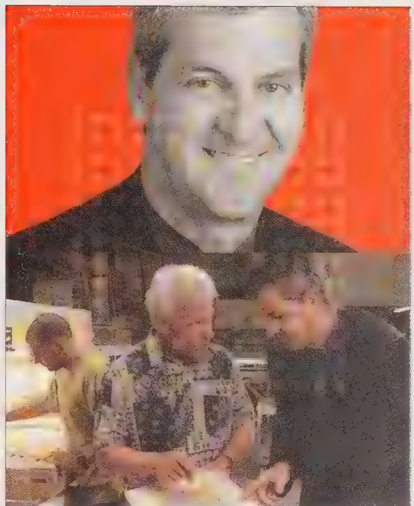
Barry Mathers, Manager, Aboriginal Financing Funds, Winnipeg and Marileen McCormick, Executive Director, Centre for Aboriginal Human Resource Development

>> "Our team had the mandate to establish a national registry of Aboriginal management consultants this year, and we're very proud that after 10 months, we have now recruited 20. The Bank has also developed distinct programs designed uniquely for the Aboriginal community, including the Aboriginal Business Development Fund for Micro Businesses, the Management Mentoring Program and the Aboriginal Entrepreneur Training Program. We have also teamed up with one of our invaluable financial services experts, Barry Mathers, in order to ensure that we can offer our clients a full range of financial and consulting services."

Manon Hamel, Manager, Entrepreneurship Center, Ottawa and Richard Robinson, Designer

>> "The Entrepreneurship Centers allow us to get closer to clients by providing one-on-one service. For more than 30 years, Richard Robinson Haute Couture's client base has been largely national, and today, we have helped the firm reach the international market with its prestigious collections. It's very satisfying to see these concrete results."





Serge Coulombe, Senior Partner, BDC Consulting Group, Quebec and Léo Lévesque, President and CEO, Cuisines Laurier Inc.

>> "When Cuisines Laurier was ready to tackle the global marketplace, BDC Consulting Group was there with full support. Along with my team, I helped improve client knowledge of the international market through our NEXPRO program and today, 85 percent of the company's revenues come from exports. To help the firm boost productivity through automating operations, we provided our strategic management expertise. The contribution we made was invaluable."

INNOVATING PRODUCTIVITY IN THE ATLANTIC PROVINCES

A host of energy-related projects in Atlantic Canada, such as Hibernia in Newfoundland and Nova Scotia's Sable Island project, have made engineering one of the area's "hot" industries. Demand is high for skilled engineers who can help meet the technical challenge of drilling offshore in northern Atlantic waters. Energy investment has given rise to other projects—in the fields of construction, transportation and manufacturing—all in need of engineering expertise. BDC's support of the local engineering industry is contributing to unprecedented growth in the Atlantic region's economy. Newfoundland's Gross Domestic Product (GDP), for example, is expected to grow 5 percent in 2001.

David Driscoll
President, D & L Engineering Sales Limited
Halifax, Nova Scotia

D & L Engineering Sales Limited

D & L Engineering Sales Limited develops and supplies customized fire detection and life safety systems for the marine, offshore, military, industrial and commercial sectors.

"In a highly competitive industry like ours, tackling the international market is nothing less than essential. And that's precisely why working with BDC to achieve ISO 9002 certification was paramount to our success in the global arena. In the past year, we've seen 20 percent growth, largely due to the offshore oil and gas industry. And to accommodate our rapid expansion, we used a BDC term loan to renovate our warehouse facilities and create new office space. With everything in place, we're now ready to explore our export potential."

Atlantic
Provinces ▸

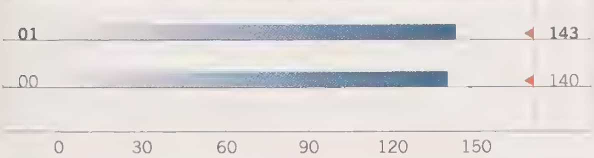
Doug Bertram
General Manager, Innovative Fishery Products Inc.
St. Bernard, Nova Scotia

Innovative Fishery Products Inc.

Innovative Fishery Products Inc. is an established grower, harvester and processor of a variety of clam and shellfish products primarily for the eastern U.S. market.

"One of our core strengths is managing our beaches to ensure maximum profitability and our 65 percent revenue growth last year is proof of that. We've also learned that you have to evolve with customer demands, so right now we're developing a clam processing business that promises to be a real success story. To improve our operating efficiency, we took advantage of a BDC term loan to finance the construction of a new building that combines product development, testing and processing all under one roof."

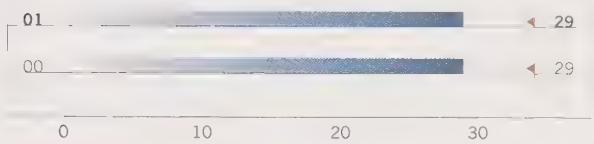
LENDING AUTHORIZED
for the year ended March 31 *($ in millions)*



LENDING AUTHORIZED • CLASSIFICATION BY PROVINCE

for the year ended March 31	2001 Number	2001 Net amount ($000)	2000 Number	2000 Net amount ($000)
Newfoundland	250	$ 48,628	260	$ 47,585
Prince Edward Island	31	8,480	50	9,930
Nova Scotia	166	30,896	160	26,835
New Brunswick	212	54,730	236	55,781
Total	659	$ 142,734	706	$ 140,131
Share of lending authorized to KBIs and exporters		29 %		29 %

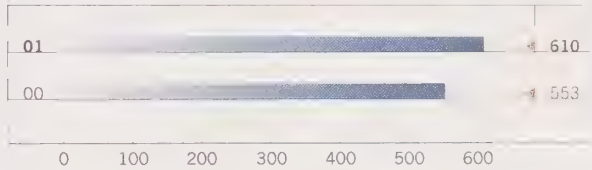
SHARE OF LENDING AUTHORIZED TO KBIs AND EXPORTERS
for the year ended March 31 *(percentage)*



COMMITMENT TO LENDING CUSTOMERS CLASSIFICATION BY PROVINCE

as at March 31	2001 Number of customers	2001 Amount ($000)	2000 Number of customers	2000 Amount ($000)
Newfoundland	916	$ 201,943	906	$ 180,915
Prince Edward Island	157	48,619	160	47,130
Nova Scotia	618	127,358	587	116,206
New Brunswick	902	232,111	886	208,700
Total	2,593	$ 610,031	2,539	$ 552,951

COMMITMENT TO LENDING CUSTOMERS
as at March 31 *($ in millions)*



CONSULTING GROUP

for the year ended March 31	2001	2000
Revenue ($000)	$ 1,454	$ 2,114
Projects (number)	549	431

Management	Branches
Ross Miller **Vice-President and District Manager, Newfoundland**	Corner Brook Grand Falls-Windsor St. John's*
Rick Floyd **Vice-President and District Manager, Nova Scotia**	Bridgewater Halifax* Sydney Truro
Vacant **Vice-President and Area Manager, New Brunswick and Prince Edward Island**	Bathurst (N.B.) Charlottetown (P.E.I.) Edmundston (N.B.) Fredericton (N.B.) Moncton (N.B.)* Saint John (N.B.)

*Location of Entrepreneurship Centers

With the global demand for biotechnology products on the increase, Quebec's large pool of skilled resources and university-affiliated research centers gives the province a definitive advantage in this lucrative market. About 30 percent of all Canadian biotechnology firms are located in Quebec and about 40 percent of the amount spent on Canadian biotechnology R&D originates in the province, an investment that is expected to double by the year 2002. Thanks to BDC's financing help, Quebec's biotech firms, most of which had humble beginnings, are gaining an international reputation for excellence.

Duffy DuFresne
President and CEO, ConjuChem Inc.
Montreal, Quebec

ConjuChem Inc.

ConjuChem Inc. is a biotechnology company that has developed proprietary technologies enabling the rapid creation of improved, patentable drugs from existing drugs.

"BDC was one of the early investors in ConjuChem, taking us from a start-up company with five people to a successful IPO with 50 employees today. The dominant issue of value in our company is our patented technology, which is broadly applicable to a range of drugs. Our new drug constructs can improve the duration of action in the body as well as improve the safety and side effects profile. ConjuChem's scope for growth is enormous, and that makes for a very exciting future."

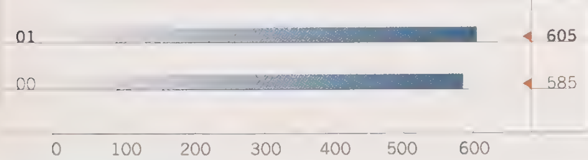
Quebec

Jocelyna Dubuc
President, Spa Eastman
Eastman, Quebec

Spa Eastman (Centre de Santé d'Eastman Inc.)
Spa Eastman (Centre de Santé d'Eastman Inc.) is a tourism destination, dedicated to health, situated on a 315-acre setting in Quebec's Eastern Townships.

"Today our biggest challenge is to help people relieve the stress that comes with daily life, and in the last two years, we've seen very promising growth in the market for women and men seeking an improved, healthier lifestyle. Over the years, Spa Eastman's facilities have evolved with our clients' needs. For instance, the BDC Tourism Investment Fund permitted us to add a central building for those who prefer to have all their treatments under one roof. We were also able to build a fitness assessment and personal training facility and indoor pool. The company recently won a Quebec Tourism Award, Gold Prize, in the accommodation category."

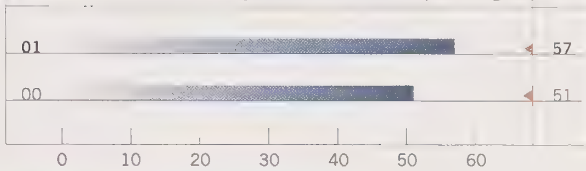
LENDING AUTHORIZED
for the year ended March 31 *($ in millions)*



LENDING AUTHORIZED
for the year ended March 31

	2001		2000	
	Number	**Net amount ($000)**	Number	Net amount ($000)
Quebec	**2,083**	**$ 605,309**	2,113	$ 585,130
Share of lending authorized to KBIs and exporters		**57 %**		51 %

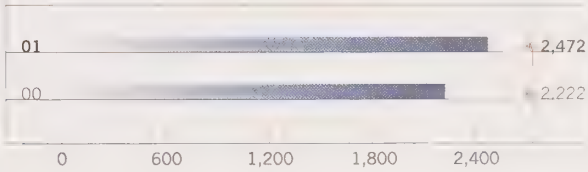
SHARE OF LENDING AUTHORIZED
TO KBIs AND EXPORTERS
for the year ended March 31 *(percentage)*



COMMITMENT TO LENDING CUSTOMERS
as at March 31

	2001		2000	
	Number of customers	**Amount ($000)**	Number of customers	Amount ($000)
Quebec	**6,564**	**$2,472,170**	5,991	$2,222,261

COMMITMENT TO LENDING CUSTOMERS
as at March 31 *($ in millions)*



CONSULTING GROUP
for the year ended March 31

	2001	2000
Revenue ($000)	**$ 7,619**	$ 7,837
Projects (number)	**2,468**	2,246

Management	**Branches**
Alain Gilbert **Vice-President and Area Manager, Eastern Quebec**	Chicoutimi Quebec* Rimouski Trois-Rivières
Guy Gervais **Vice-President and Area Manager, Southern Quebec**	Drummondville Granby Longueuil* Sherbrooke
Gilles Lapierre **Vice-President and Area Manager, Laval**	Laval* Saint-Jérôme Thérèse-de-Blainville
Michel Crête **Vice-President and Area Manager, Montreal**	De Maisonneuve Place Ville Marie* Saint-Léonard
Patrice Bernard **Vice-President and Area Manager, Western Quebec**	Hull Pointe-Claire Rouyn-Noranda Saint-Laurent*

*Location of Entrepreneurship Centers

Spurred by relentless public demand for culture, communications and entertainment, Ontario has become a hotbed of high-tech start-ups and companies with products that range from pyrotechnics to animation. Clearly, Southwestern Ontario is also at the center of a communications revolution, with its highly developed infrastructure and cutting-edge manufacturing and research and development facilities. In fact, 90 percent of all Canada's private sector telecommunications research and development is done in this area. Today, BDC is there to help entrepreneurs turn their innovative ideas into reality.

Adrian Segeren
President, Le Maitre Special Effects
London, Ontario

Le Maitre Special Effects
Le Maitre Special Effects is a world-class manufacturer of theatrical special effects, including fog, simulated steam and pyrotechnical equipment for the entertainment industry.

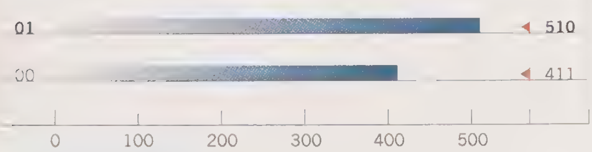
"We started out thinking locally. But with an insatiable demand for entertainment in the U.S. that boasts a population of 300 million, we knew that tapping into this lucrative market would be key to our success. Today, more than 85 percent of our revenues come from the U.S. and Mexico, and this year we've achieved about 22 percent growth in our company. BDC has worked with us for more than nine years, and the Bank's Subordinate Financing has helped us extend our reach into the international marketplace."

Ontario ▸

Robert Baker
President, Only Component Corporation
Markham, Ontario

Only Component Corporation
Only Component Corporation is a leading manufacturer of audio components and systems. "We have made a mark in the industry with our top quality speakers using a highly innovative SpatialSound technology (produced under license from Nuance Audio Corp.) that produces a visual image of music on a home theatre screen. BDC provided us with Innovation Financing to be used for market development. To reinforce our commitment to quality and environmental standards, we are currently working with the Bank to achieve ISO 9001 and 14000 certification."

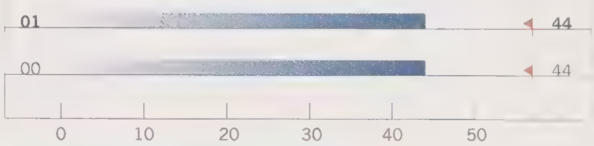
LENDING AUTHORIZED
for the year ended March 31 (*$ in millions*)



LENDING AUTHORIZED
for the year ended March 31

	2001 Number	2001 Net amount ($000)	2000 Number	2000 Net amount ($000)
Ontario	**1,822**	**$ 509,626**	1,590	$ 410,736
Share of lending authorized to KBIs and exporters		**44 %**		44 %

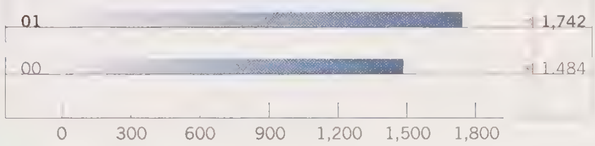
SHARE OF LENDING AUTHORIZED TO KBIs AND EXPORTERS
for the year ended March 31 *(percentage)*



COMMITMENT TO LENDING CUSTOMERS
as at March 31

	2001 Number of customers	2001 Amount ($000)	2000 Number of customers	2000 Amount ($000)
Ontario	**5,624**	**$1,742,151**	5,122	$1,484,152

COMMITMENT TO LENDING CUSTOMERS
as at March 31 *($ in millions)*



CONSULTING GROUP
for the year ended March 31

	2001	2000
Revenue ($000)	**$ 5,562**	$ 5,841
Projects (number)	**1,513**	954

Management	Branches
Pauline Rochefort **Vice-President and Area Manager Eastern and Northern Ontario**	Kingston* Ottawa*
Kevin Dane **Vice-President and District Manager, Northern Ontario**	Kenora North Bay Sault Ste. Marie Sudbury Thunder Bay Timmins
Ronald Panetta **Vice-President and Area Manager, Southern Ontario**	Kitchener London* Stratford Windsor
Michel Leduc **Vice-President and Area Manager, Toronto**	Barrie North York* Toronto* Toronto North
Brendan Cunneen **Vice-President and Area Manager, Toronto East**	Markham Oshawa Peterborough Scarborough*
André Dusablon **Vice-President and Area Manager, Mississauga**	Brampton Halton Hamilton Mississauga* St. Catharines

*Location of Entrepreneurship Centers

INNOVATING PRODUCTIVITY IN THE PRAIRIES, NORTHWEST TERRITORIES AND NUNAVUT

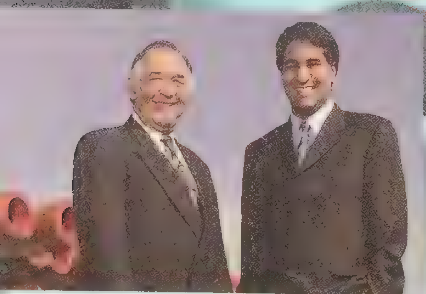
Western Canada's high technology sector is vaulting into prominence, particularly in the areas of telecommunications and software development. And BDC is there with customized financing and consulting solutions. Growth in local industries has driven demand for communication and information technologies, giving rise to a profusion of start-up firms. Alberta, with over 51,000 high tech workers, has seen 11 percent growth in new economy industries over the last five years or so and plans to double the size of its high-tech sector in the next 10 years. High tech momentum is building in other western regions as well, where strategies to take advantage of this new economy opportunity are being developed.

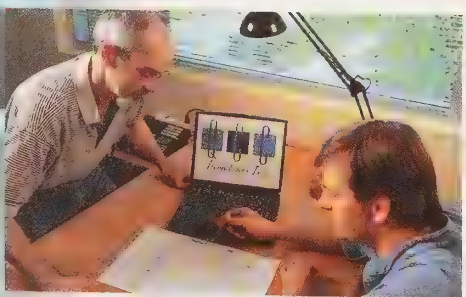
Sid McDougall
President, Pepco Tubular Services
Edmonton, Alberta

Pepco Tubular Services

Pepco Tubular Services is a leader in pipe fabrication, tubular coating of down hole tubing, drill pipes, line pipes, and pipe fittings for oil and gas, chemical and pipeline companies.

"The drilling and pipeline industries here have experienced tremendous growth and we're definitely seeing the benefits. Our revenues in the past year have increased by 50 percent, and this is largely due to our dedicated service approach and keeping a close eye on the market. For example, we knew that companies were making increasing demands for coating services, so we used a BDC term loan to purchase sophisticated coating equipment. It's great to be in an environment that's moving full speed ahead."





Prairies,
Northwest
Territories
and Nunavut

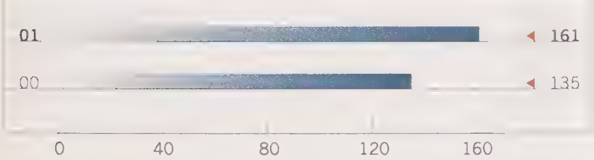
David Criddle
President and CEO, QCC Technologies Inc.
Saskatoon, Saskatchewan

QCC Technologies Inc.

QCC Technologies Inc. provides specialized engineering, technical and consulting services related to advanced data networking and information technologies.

"The fact is, we are always evolving to enable our clients to adopt advanced technologies and manage them effectively. BDC has played a key role in providing our company working capital for expansion and growth in a knowledge-based sector. Our targeted acquisition of two information technology companies has helped us expand the scope of our services and ultimately triple our revenues. As well, our highly skilled team of professionals has helped us achieve a leadership position in the industry."

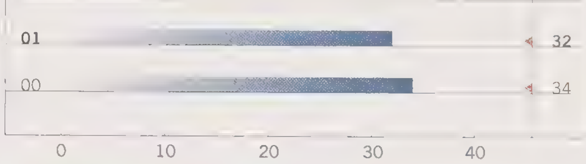
LENDING AUTHORIZED
for the year ended March 31 (*$ in millions*)



LENDING AUTHORIZED CLASSIFICATION BY PROVINCE AND TERRITORY

for the year ended March 31	2001 Number	2001 Net amount ($000)	2000 Number	2000 Net amount ($000)
Manitoba	210	$ 18,229	242	$ 28,524
Saskatchewan	349	26,792	391	27,122
Alberta	634	110,231	585	73,443
Northwest Territories and Nunavut	15	6,303	21	6,334
Total	1,208	$161,555	1,239	$ 135,423
Share of lending authorized to KBIs and exporters		32 %		34 %

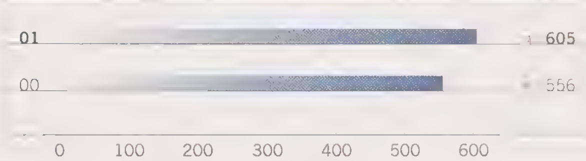
SHARE OF LENDING AUTHORIZED TO KBIs AND EXPORTERS
for the year ended March 31 (*percentage*)



COMMITMENT TO LENDING CUSTOMERS CLASSIFICATION BY PROVINCE AND TERRITORY

as at March 31	2001 Number of customers	2001 Amount ($000)	2000 Number of customers	2000 Amount ($000)
Manitoba	502	$ 103,330	508	$ 108,654
Saskatchewan	576	116,331	575	113,751
Alberta	1,249	355,827	1,202	304,189
Northwest Territories and Nunavut	84	29,876	87	29,256
Total	2,411	$ 605,364	2,372	$ 555,850

COMMITMENT TO LENDING CUSTOMERS
as at March 31 (*$ in millions*)



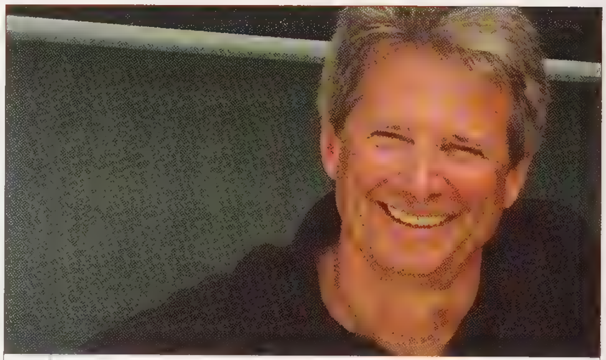
CONSULTING GROUP

for the year ended March 31	2001	2000
Revenue ($000)	$ 1,725	$ 1,959
Projects (number)	474	676

Management	**Branches**
Wellington Holbrook Vice-President and Area Manager, Manitoba and Saskatchewan	Brandon (Man.) Regina (Sask.) Saskatoon (Sask.) Winnipeg (Man.)*
Laura Didyk Vice-President and Area Manager, Southern Alberta	Calgary Calgary North* Lethbridge
Terry Quinn Vice-President and Area Manager, Northern Alberta and Northwest Territories	Edmonton (Alta.)* Grande Prairie (Alta.) Red Deer (Alta.) Yellowknife (N.W.T.)

*Location of Entrepreneurship Centers

BDC is proud to help drive expansion in British Columbia's fish farming industry, the fastest growing component of the province's fishing and aquaculture sector. Within the last five years, fish and shellfish farming has grown to about one third the size of the province's commercial fishery and aquaculture has contributed more to the province's GDP than the salmon fishery. For example, from its small beginnings in the early 1980s, the industry has expanded more than most sectors in the province, outstripping growth in the electrical and electronic products manufacturing industry tenfold. Clearly, the Bank has played an important role in the local economy's diversification.



Wayne Gorrie
President, PRAqua Supplies Ltd.
Nanaimo, British Columbia

PRAqua Supplies Ltd.

The PRAqua Group of Companies is a market leader in providing design, engineering and construction services to the aquaculture and water treatment industries.

"Whether it's providing full design and field services to build a salmon hatchery or putting a multi-disciplinary design team on a complex water treatment problem, the core of our success today is innovation. When we realized that our engineering services had to significantly expand to meet soaring demands, we created PRAqua Technologies Ltd. and BDC backed us with a term loan to help purchase a new building to house our team. Today, we feel that our company is truly growth driven and we are exporting more than 50 percent of our products and services to countries all over the world."

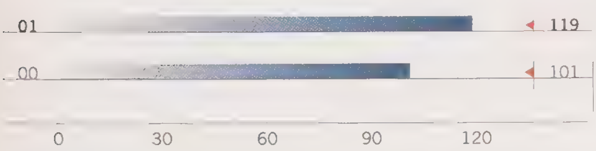
British
Columbia
and Yukon

Masahide Muroyama
President, Big Foot Manufacturing Ltd.
Tappen, British Columbia

Big Foot Manufacturing Ltd.
Big Foot Manufacturing Ltd. specializes in the manufacture of quality log homes, largely exported to Japan.

"We've carved out 50 percent of the market in a country with a population of 128 million and that definitely makes us an exporting success. People in cities like Tokyo often live in small spaces, such as condos, so our product is very appealing. We're the first log home company to be awarded ISO 14001 certification for our environmental system. And to help maintain high productivity in a high-volume environment, a BDC Productivity Plus Loan is a good fit to meet our expansion needs."

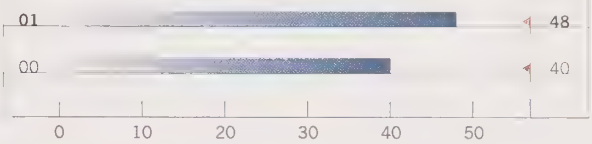
LENDING AUTHORIZED
for the year ended March 31 (*$ in millions*)



LENDING AUTHORIZED
CLASSIFICATION BY PROVINCE AND TERRITORY

for the year ended March 31	2001 Number	2001 Net amount ($000)	2000 Number	2000 Net amount ($000)
British Columbia	659	$ 116,853	685	$ 97,692
Yukon	17	1,837	17	3,380
Total	676	$ 118,690	702	$ 101,072
Share of lending authorized to KBIs and exporters		48 %		40 %

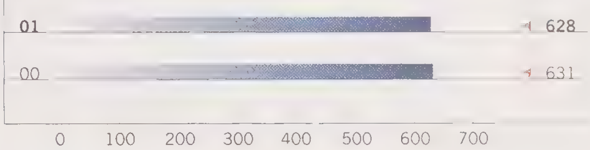
SHARE OF LENDING AUTHORIZED
TO KBIs AND EXPORTERS
for the year ended March 31 (*percentage*)



COMMITMENT TO LENDING CUSTOMERS
CLASSIFICATION BY PROVINCE AND TERRITORY

as at March 31	2001 Number of customers	2001 Amount ($000)	2000 Number of customers	2000 Amount ($000)
British Columbia	2,442	$ 601,172	2,555	$ 600,392
Yukon	119	26,397	129	30,703
Total	2,561	$ 627,569	2,684	$ 631,095

COMMITMENT TO LENDING CUSTOMERS
as at March 31 (*$ in millions*)



CONSULTING GROUP

for the year ended March 31	2001	2000
Revenue ($000)	$ 1,364	$ 1,645
Projects (number)	656	702

Management	Branches
Brian Forward **Vice-President and Area Manager, Fraser and Interior**	Cranbrook (B.C.) Fort St. John (B.C.) Fraser Central (B.C.)* Langley (B.C.) Prince George (B.C.) Whitehorse (Y.T.)
Steve Zink **Vice-President and District Manager, B.C. Interior**	Kelowna Kamloops Williams Lake
William Martinez **Vice-President and Area Manager, Vancouver**	Campbell River Nanaimo North Vancouver Terrace Vancouver* Victoria

*Location of Entrepreneurship Centers

CORPORATE GOVERNANCE

BDC's Board of Directors is firmly committed to effective corporate governance practices that ensure that the Bank operates according to solid business principles while filling a vital need in the Canadian economy. Board members, who represent the geographic and professional diversity of BDC customers, believe that a flexible, yet strong corporate governance regime that emphasizes openness and full accountability is key to maintaining the Bank's position as a leading financial institution dedicated to small business.

>> In fulfilling their role of directing and managing BDC business affairs, the Board and its committees monitor the effectiveness of the Bank's corporate governance practices and approve necessary changes. They approve the strategic direction and Corporate Plan, monitor corporate performance, authorize compensation policies, ensure business risks are properly identified and appropriate risk management systems are implemented. They also ensure that the proper financial reporting, financial control and audit systems are implemented.

In fiscal 2001, the Board undertook specific activities to ensure it continued to effectively fulfill its mandate.

Board members participated in a strategic session whereby they reviewed BDC's Mission, Vision and Strategic Priorities.

In recognition that feedback is also an important part of the governance process, an annual evaluation procedure was implemented in order to assess the Board and committees' performance.

>> Fully aware that high performance is required of all bodies, although the Bank has been practicing effective risk management for many years, the Board and management have been placing greater emphasis this year on integrated risk management. The Bank's key risks were assessed, together with actions being taken to successfully manage these risks. As well, an effective on-going process was put in place to identify, measure and proactively manage potential risks.

>> The Board met nine times in fiscal 2001. Four of these meetings were held in different locations across Canada, providing Board members with the opportunity to meet with local clients, stakeholders and people from the community. These meetings have sparked a positive reaction and helped to raise BDC's profile across the country.

>> The seven committees of BDC's Board of Directors consider, review, monitor and supervise matters referred to them by the Board and make recommendations. Following are their main achievements for fiscal 2001.

Executive Committee

>> The Executive Committee, which handles important matters that come up between Board meetings, met 20 times in fiscal 2001. It approved loans and investments that exceeded the powers delegated to management and exercised other powers determined by the Board.

Chairperson: Cedric E. Ritchie

Members: Terry B. Grieve, V. Peter Harder
Peter G. Jollymore, Gregory Sorbara
Michel Vennat

Governance Committee

>> Members of the Governance Committee are responsible for matters related to the Bank's corporate governance practices. This includes determining the structure, mandate and membership of the Board's committees and recommending ways to enhance Board performance. The Committee implemented an evaluation process assessing the performance of the Board and each Committee in fiscal 2001. The analysis of results will help determine areas of progress and those requiring follow-up action.

Chairperson: Peter G. Jollymore

Members: Jennifer Corson, James A. Durrell
Cindy Sprague, Cedric E. Ritchie

Human Resources Committee

>> The Human Resources Committee supports the Bank's belief that its success lies in its people, and works to ensure BDC training, compensation, succession and Human Resources strategic plans are designed to attract and retain competent, productive and motivated employees. In addition to approving the annual compensation budget, the Committee reviews the Bank's succession plans, compensation policy and Human Resources strategic plans. In fiscal 2001, the Committee continued to monitor the Bank's progress in attracting and retaining qualified people, while ensuring that compensation remained competitive. The Committee also continued to support the Bank's commitment to being an "Employer of Choice."

Chairperson: Peter G. Jollymore

Members: Leo E. Cholakis, Jennifer Corson
Ann Cheryl Denny, Roger Plamondon
Gregory Sorbara, Cindy Sprague

Business Development Committee

>> This committee provides policy direction that helps the Board respond to changes in the Canadian marketplace. Its recommendations are based on continued monitoring of the evolution of industries, regional economies and the shifting environment. In fiscal 2001, the Committee reviewed the Bank's advertising campaign, communication plans and impact analyses as well as business development strategies and projects in areas such as Aboriginal banking and electronic commerce.

Chairperson: Gregory Sorbara

Members: Leo E. Cholakis, Jennifer Corson
Ann Cheryl Denny, James A. Durrell
Terry B. Grieve

Audit Committee

>> The Audit Committee oversees financial reporting, corporate financing, treasury management, performance measurement, internal control systems and codes of conducts. Its members help the Board safeguard the Bank's assets and manage its resources. It reviews the quarterly financial results and oversees the external auditors' involvement in the annual financial audit. It also reviews the work of the internal audit and inspection team and reviews the financial statements in the Annual Report prior to Board approval. In fiscal 2001, the Audit Committee also refined the Bank's methodology to determine the loan loss provisions.

Chairperson: Terry B. Grieve

Members: N. Murray Edwards, Roslyn Kunin
Oryssia Lennie, Cindy Sprague

Risk Management Committee

>> The Risk Management Committee ensures that policies and systems are in place to manage risks associated with the Bank's activities. In fiscal 2001, it reviewed risks involving the loan portfolio and treasury activities. In addition, the Committee oversaw the integrated risk management project.

Chairperson: Roslyn Kunin

Members: James A. Durrell, N. Murray Edwards
Roger Plamondon, Michel Vennat

Pension Fund Committee

>> The Pension Fund Committee monitors the pension fund's activities, ensures that the fund is administered and financed in accordance with applicable legislation, and ensures that any changes to the plan reflect the Committee's terms of reference. In fiscal 2001, the Committee met to review the pension fund's financial performance and stability. Members ensured that the Bank continued to receive excellent service from external suppliers administering the pension fund. For the pension plan year ending December 31, 2000, the fund will report a continued surplus.

Chairperson: Leo E. Cholakis

Members: Clément Albert, Roslyn Kunin
Louise Piché, Roger Plamondon
Cedric E. Ritchie, Michel Vennat

BOARD OF DIRECTORS AND OFFICERS

As at March 31, 2001

Directors

Leo E. Cholakis, L.L.B.
Managing Director
Kensington Building Ltd.
Winnipeg, Manitoba

Jennifer Corson
President
Renovators Resource Inc.
Halifax, Nova Scotia

Ann Cheryl Denny
Program Director for
Aboriginal Programming
University College of
Cape Breton
Sydney, Nova Scotia

James A. Durrell
President
Capital Dodge Chrysler
Jeep Ltd.
Ottawa, Ontario

N. Murray Edwards
President
Edco Financial Holdings Ltd.
Calgary, Alberta

Terry B. Grieve, CA
Principal
Ventures West
Management Inc.
Saskatoon, Saskatchewan

V. Peter Harder
Deputy Minister
Industry Canada
Ottawa, Ontario

Peter G. Jollymore
Company Director
Saint John, New Brunswick

Roslyn Kunin, Ph.D
President
Roslyn Kunin &
Associates Inc.
Vancouver, British Columbia

Oryssia Lennie
Deputy Minister
Western Economic
Diversification
Edmonton, Alberta

Roger Plamondon
Assistant Vice-President
Legal and Development
Costco Canada Inc.
Laval, Quebec

Cedric E. Ritchie, O.C.
Chairman of the Board
Business Development
Bank of Canada
Toronto, Ontario

Cindy Sprague
President and CEO
OmniMark Technologies Inc.
Ottawa, Ontario

Gregory Sorbara*
Partner
The Sorbara Group
Vaughan, Ontario

Michel Vennat, O.C., Q.C.
President
and Chief Executive Officer
Business Development
Bank of Canada

Officers

Michel Vennat, O.C., Q.C.
President and Chief
Executive Officer

André Bourdeau
Executive Vice-President
Financial Services

Luc Provencher
Executive Vice-President
Integrated Risk Management

Michel Ré
Executive Vice-President
Investments

Jean Carle
Senior Vice-President
Corporate Affairs

Michel Desjardins
Senior Vice-President
BDC Consulting Group

Jacques Lemoine
Senior Vice-President, Credit

Alan B. Marquis
Senior Vice-President
Finance and
Chief Financial Officer

Edmée Métivier
Senior Vice-President
Strategic Planning and
Resources Management

Clément Albert
Vice-President and Treasurer

Richard Morris
Vice-President, Audit and
Portfolio Risk Management

Andrée LeBlanc Daviault
General Counsel and
Corporate Secretary

* Our sincere appreciation is extended to Gregory Sorbara for the role he played in the development of the Bank. Mr. Sorbara resigned as of April 4, 2001.

OPERATING ENVIRONMENT

>> The Canadian economy is experiencing the longest growth period it has seen since the mid-1960s. Gross Domestic Product (GDP) growth in 2000 was 4.7 percent, higher than what was anticipated a year ago. These stronger results are primarily attributable to the continued strong performance of Canadian exports to the United States and a surge in capital and consumer spending. During the year, employment grew at a rate of 2.6 percent with a low unemployment rate of 6.8 percent.

>> The slowdown in the U.S. economy in 2001 will limit export growth. This year, however, the fiscal stimulus generated by tax cuts at both provincial and federal levels will shore up incomes in spite of weak employment growth. Moreover, in contrast to previous pre-recession periods, interest rates are relatively low, and this should provide a strong boost to the economy as the year wears on. As a result, economic growth is forecast to decelerate from last year's 4.7 percent pace to 2.4 percent in 2001 before rising to 3.4 percent in 2002. These positive predictions must be viewed with caution given that the situation presents some risks. The correction in the manufacturing sector to shrink inventory accumulation could be deeper, falling stock markets may have a stronger impact on household spending patterns, and the possibility of a second bout of Asian financial turbulence poses a threat to the current outlook.

>> Small businesses are major contributors to Canada's economic performance, especially when it comes to their contribution to GDP and to job creation. For instance, most of the growth in net business creation, which has accelerated since 1998, has been among firms with fewer than five employees. Various factors, such as increased outsourcing by larger corporations, underlie this phenomenon. In addition, new technologies, such as Web technologies, are leveling the playing field for many Canadian small businesses. Small businesses are also an important source of innovation and are often the driving force behind new products and technologies in fast growing industries. This is especially true for new, start-up companies which are among the strongest job creators and innovators in today's economy.

>> Globalization, free trade and new technologies are putting increased competitive pressure on Canada's small businesses. This pressure comes from both domestic and foreign companies that have adapted faster and more effectively to new market realities and technologies. To survive, small businesses have no choice but to improve their competitiveness, which, in the current environment, means improving productivity.

>> Improving productivity is largely dependent on the decisions small businesses make with respect to innovation and investment in their strategic development. Given the link between innovation and productivity, Canada also lags behind the U.S. economy on the innovation front. For example, Canadian private sector spending on R&D as a share of GDP is lower than in the U.S. Canadian companies, especially small businesses, are slower than their U.S. counterparts to adopt leading edge technologies and processes. This explains to some extent the Canadian productivity gap with the U.S.

>> The nature of the Canadian economy is continually evolving. For instance, the output of the information and communications technology sector has almost doubled since 1995 and now accounts for over 4 percent of total output in Canada. The increased importance of the technology sector in the Canadian economy combined with increased investment in machinery and equipment at levels comparable to those of the U.S. four years ago, bodes well for the productivity performance of the Canadian economy in the coming years. However, if Canada is to reduce the productivity gap with the U.S. over the long term, it must also have a dynamic venture capital industry, one that will be willing to take risks in investing in the development and commercialization of future innovations.

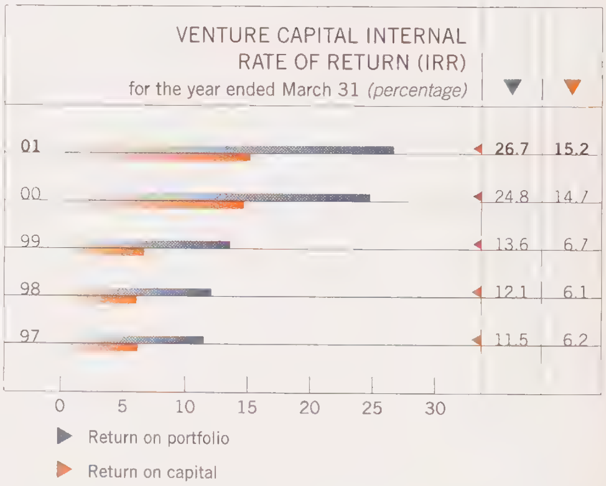
>> BDC, in its role of provider of lending, investing and consulting solutions to Canadian small businesses, focuses on the overall objective of making Canadians more productive and competitive in the knowledge-based economy. As small businesses adapt to increasing competition and technological change, and as new businesses and industries make their entry into the market over the next five to 10 years, not all companies will be able to rely on private sector sources to assist them with both financing and consulting advice. BDC will therefore continue to meet the needs of thousands of Canada's small businesses each year, especially those firms in the knowledge-based sector.

Financial performance

>> Consistent with the Bank's commitment to support entrepreneurship and focus on small businesses, 75 percent of BDC's lending activities were for loans of $250,000 or less, and including the Global Line of Credit®, 55 percent of activities were for amounts of $100,000 or less. Given that many of these loans are for start-up or very early stage businesses, they involve a greater risk profile, with a higher expected default frequency.

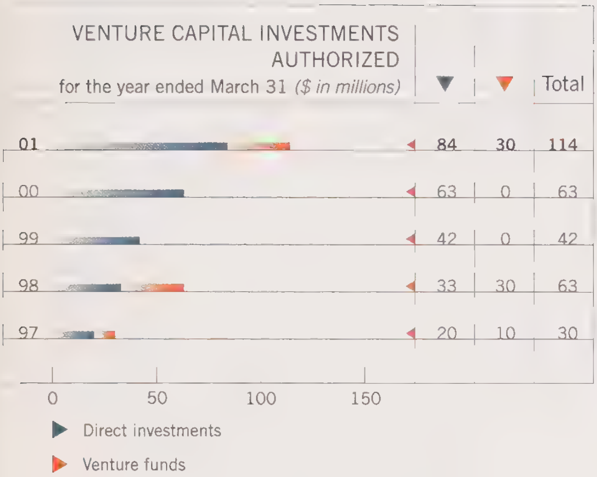
>> Venture capital investment activity experienced a steady demand, and 71 deals totaling $114 million were authorized during the year, compared to 62 deals for $63 million in fiscal 2000. The investment portfolio outstanding at March 2001 grew to $206 million at cost, from $145 million at March 2000.

>> During the year, a number of venture capital investments were divested, or taken over by other corporations. Prevailing market valuations during the year were high, and the gains on those divestitures generated significant Venture Capital operating profits of $56.2 million for fiscal 2001, compared to $80.0 million in fiscal 2000.



>> Internal Rate of Return (IRR) is a standard measure of performance in the venture capital industry. A moving ten-year average IRR of the Bank's portfolio of venture capital investments, before operating expenses, has grown from 11.5 percent in fiscal 1997 to 26.7 percent in fiscal 2001.

>> The Bank also measures its IRR based on the total capital injected including funding for investment activity in future fiscal years. Based on this measure, the IRR has grown from 6.2 percent in fiscal 1997 to 15.2 percent in fiscal 2001.



>> For the second consecutive year, Venture Capital operations contributed most (64 percent—fiscal 2001) of the Bank's net income of $88.3 million for the year.

>> Total lending authorized for fiscal 2001 was $1,538 million, 11 percent above the Corporate Plan objective. The risk profile of the Bank's loan portfolio continues to be high, and includes an increasing number of Subordinate Financing transactions. Consequently, and in line with industry practice, the Bank increased the general allowance for credit losses, resulting in a provision expense of $106 million, compared to $94 million in fiscal 2000.

>> BDC Consulting Group's performance in 2001 was similar to fiscal 2000. Revenues of $17.7 million were lower than the $19.4 million in fiscal 2000, while the net operating losses were $5.1 million compared to $4.2 million in 2000.

>> The Bank again reported a strong net income for fiscal 2001, $88.3 million compared to $101.1 million in 2000, and to the Corporate Plan objective of $42 million. Consequently, retained earnings net of dividends increased by $74.5 million, thus enabling the Bank to further support the changing requirements of Canadian small business.

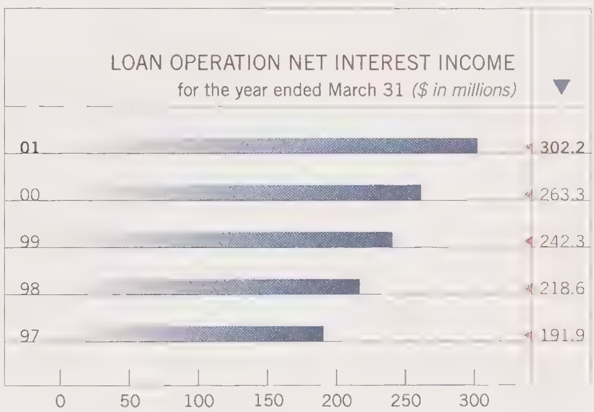
>> The Government of Canada invested $65 million in preferred shares in fiscal 2001 to further support growth in the Bank's investment portfolio.

Income statement

LOAN OPERATIONS

Net interest income

>> The loan portfolio produces the Bank's gross interest income, reflecting the interest rates charged to customers. This portfolio is largely funded by the Bank's borrowings, on which the cost of funding generates the Bank's interest expense. In fiscal 2001, net interest income increased by 15 percent to $302 million, while the net margin improved from 5.6 percent to 5.8 percent of the average portfolio.

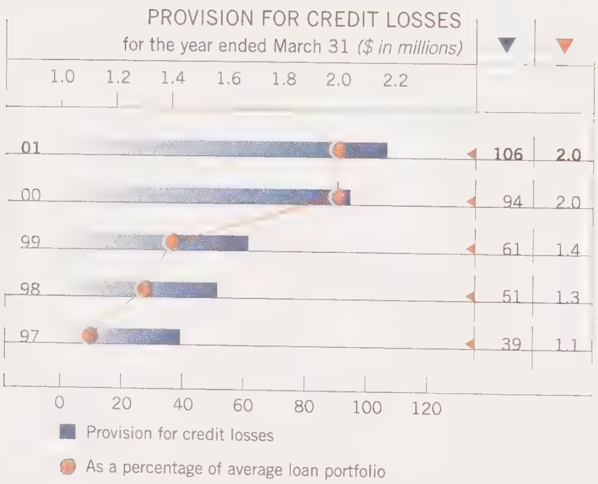


>> At year end, the loan portfolio amounted to $5.4 billion, compared to $4.9 billion a year previously, and ahead of the Corporate Plan objective of $5.3 billion. In recognition of the high degree of risk in the portfolio, the Bank is enhancing its portfolio risk management processes to improve the identification and monitoring of risk.

Provision for credit losses

>> The Bank's commitment to the small business sector and emphasis on KBIs and start-up operations involve an increased probability of default. Accordingly, the Bank maintains a prudent level of allowance for credit losses. The amount provided for credit losses in fiscal 2001 was maintained at 2.0 percent of the average portfolio. That charge of $106 million for fiscal 2001 includes an additional general provision of $15 million more than the Corporate Plan objective.

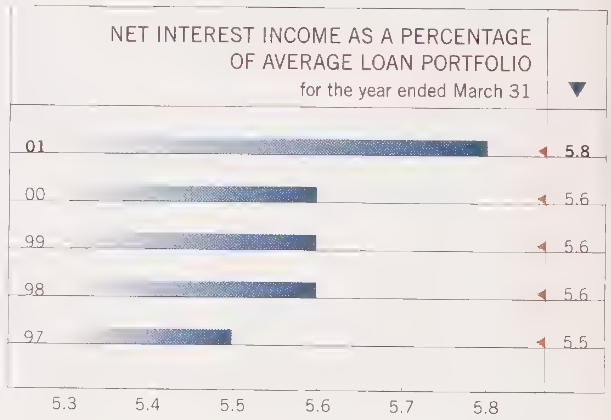
>> The allowance for credit losses, at $358 million, amounts to 6.6 percent of the portfolio and is in line with the Bank's long-term loan loss experience.



Operating and administrative expenses

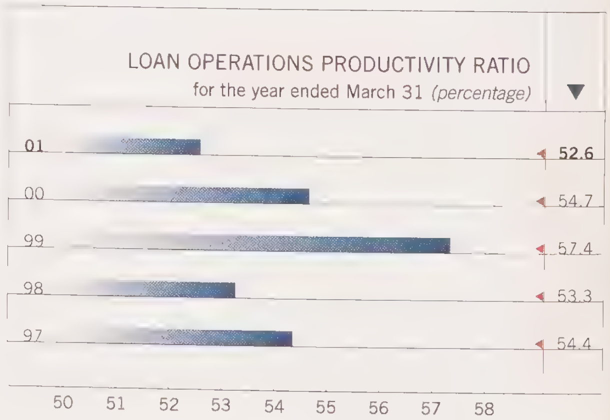
>> Loan operating expenses at $159 million were in line with the Corporate Plan, an increase of 10 percent over the previous year and proportionate to the increase in lending activity. Staffing levels in Ontario and Western Canada were increased to better respond to customers' needs, and overall productivity was maintained at the fiscal 2000 level. Training programs were focused on enhancing customer service and employee commitment.

>> Ongoing funding was committed to the corporate communications and advertising program to increase public awareness of the Bank's role, operations and services, and to better serve the needs of Canadian small business entrepreneurs.



>> The productivity ratio continues to improve from 55 percent last year to 53 percent in fiscal 2001. This important measure compares operating expenses to net interest income, with a lower ratio indicating higher productivity. The Bank continues to strive for the right balance between its commercial objectives and its public policy role.

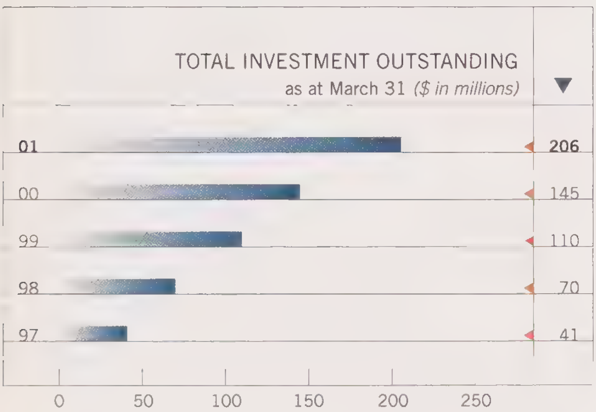
>> The information technology infrastructure software and applications were upgraded during fiscal 2001 to enable employees to operate outside the Bank's premises, and respond more rapidly to customers' needs.



VENTURE CAPITAL OPERATIONS

>> The increased level of investment activity continues to build the portfolio, to $206 million from $32 million in five years. Divestitures during the year represented the major part of the $56 million income for a second strong year, following the $80 million earned last year. The value of the portfolio was also reduced by $13 million through write-downs, an amount similar to last year. At March 2001, unrealized gains were estimated at $77 million, which will be brought into income when the investments are divested in subsequent years, if the market conditions prevail.

>> Operating and administrative expenses of $14.7 million include Venture Capital's proportionate share of the Bank's administrative expenses, and the accrual for the employee long-term incentive program which is based on net realized gains on the sale of investments.



BDC CONSULTING GROUP OPERATIONS

>> Consulting services provided to Canadian businesses produced third party revenues of $17.7 million, slightly higher than the equivalent revenue in fiscal 2000, which last year had included an adjustment of $2.3 million for inter-company services. The net operating loss of $5.1 million compares to the $4.2 million loss in fiscal 2000. The cost recovery rate of 78 percent was below the 82 percent of fiscal 2000, reflecting the inter-company adjustment in that year.

>> Pursuant to the Bank's decision in September 1996 to fund the deficit from Consulting Operations entirely from internal resources, no Government appropriation has been provided since that time. The number of projects undertaken by BDC Consulting Group increased from 5,009 to 5,660 in fiscal 2001.

Comparison with 2001 Corporate Plan

>> Plan objectives were surpassed, with Venture Capital contributing a net income of $56 million, versus projections of $5 million, with two major divestitures generating most of the gains. Loans operations earned $37 million compared to projections of $40 million, after providing an additional $15 million for potential credit losses.

>> Loan portfolio growth was slightly better than planned, reaching $5.4 billion versus $5.3 billion, and margins improved, earning an additional $16 million of net interest income. Operating and administrative expenses of $159 million increased proportionately to the increased volume of activity.

>> Return on common equity of 12.6 percent consequently exceeded the plan objective of 6.0 percent.

2002 Corporate Plan

>> The Corporate Plan projects net income at $59 million of which $45 million will be contributed by Loans. Net income from Venture Capital will return to more normal levels at $17 million, after the exceptional divestitures that took place in fiscal 2000 and 2001. BDC Consulting Group will continue its march toward breakeven with a reduced loss of $3 million.

>> Lending authorizations are expected to grow by 7 percent to $1,605 million. The Loans portfolio will grow to $5,855 million representing an increase of $430 million. The Bank will improve its productivity ratio by realizing economies of scale and continuing to improve its processes. The Bank's capital base will increase to $973 million in order to support the Bank's financing to small business.

Risk management

OVERVIEW

The Bank has a well-established structure for managing risks arising from its activities. The Board has also established a Risk Management Committee to monitor the Bank's various risk exposures and compliance with the Financial Risk Management Guidelines for Crown corporations, issued by the Minister of Finance.

The Bank's exposure to risk is composed of four major types: Credit Risk, Market Risk, Liquidity Risk, and Operational Risk.

The Asset and Liability Committee (ALCO), which includes senior officers of the Bank, and the Bank's credit risk function, ensure financial risks are responsibly managed to protect the Bank's assets. ALCO is also responsible for periodically reviewing the policies governing credit, market and liquidity risks related to the Bank's operations. These policies are approved by the Board of Directors.

Types	Sources
Credit Risk	Lending activity, liquidity investments, hedging with derivative instruments
Market Risk	Movements in equity prices, interest and foreign exchange rates
Liquidity Risk	Availability of funds in the financial markets
Operational Risk	Systems failure, Human Resources, inadequate processes

CREDIT RISK

Risk concentration • Loan portfolio

>> The loan portfolio has grown at a compounded annual rate of 10 percent over the past five years and now amounts to $5.4 billion. That growth is matched by an increase in the number of loans outstanding, as the Bank continues to focus on the needs of small businesses, while also helping them expand into subsequent phases of business development. The loan portfolio is extensively diversified both geographically and by industry sector, reflecting the Bank's responsiveness to customer demand. Accordingly, there is no significant concentration of credit risk on either of these issues. However, given the focus on start-up and early stage investments, and increased lending to KBIs, the proportion of higher risk loans is high and continues to increase.

>> As the Bank operates independently of any external guarantees or loss insurance, it assumes the entire risk on such transactions and ultimately will experience losses on a certain proportion of them. BDC Consulting Group helps manage that risk exposure by providing external expertise to improve the businesses' probability of success.

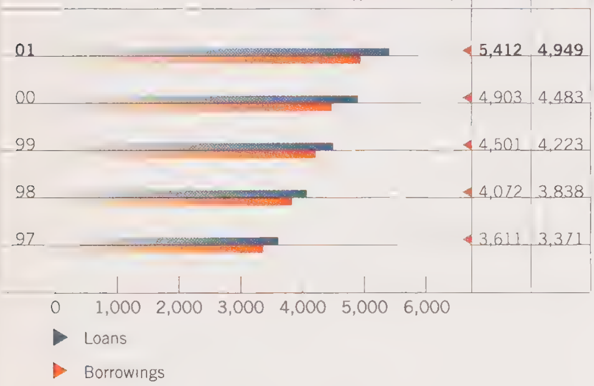
Credit quality • Loan portfolio

>> Impaired loans are those for which, in the opinion of management, there is no reasonable likelihood of collecting the full amount outstanding. Such loans amounted to $272 million at March 2001, compared to $235 million a year ago. A specific allowance for credit losses of $96 million has been established to cover the exposure on these loans. As the portfolio comprises a large volume of small loans, it is not possible to attribute ratings of independent credit agencies.

>> Performing loans are regularly reviewed to reflect their current credit quality, and graded according to the Bank's own risk rating criteria. Loans rated high risk represent a significant proportion of the portfolio, thus increasing the Bank's exposure to potential loss, and necessitating a provision charge for fiscal 2001 at 2.0 percent of the average porfolio, the same rate as fiscal 2000.

>> General allowances are maintained to mitigate the ultimate exposure to loss from groups of performing loans, based on historical performance, modelling techniques, estimated credit losses for the current phase of the economic cycle and judgement. The total general allowance at March 2001 was $262 million, $55 million higher than a year ago.

TOTAL OUTSTANDING LOANS VS. BORROWINGS
as at March 31 *($ in millions)*



Risk concentration • Investments

>> The Bank has a restrictive policy governing its liquid investment activity. Short-term investments in deposits and money market instruments are contracted with top credit quality institutions for terms of less than one year. Longer term investments are permitted in securities issued or guaranteed by the Canadian or provincial governments, and by financial institutions that are members of the Canadian Payments Association. The risk of potential loss deriving from investment activity is very low considering that 90 percent of the investments had a term of less than one year as at March 31, 2001.

>> Venture capital investments represent by nature, a high credit risk. The Bank monitors such investments continuously, and divests its holdings on a phased basis, taking into account market conditions and applicable restrictions on such transactions.

RISK EXPOSURE IN SHORT-TERM INVESTMENTS AND SECURITIES
as at March 31, 2001 *($ in millions)*

	Term to maturity		
Credit Rating*	Less than 1 year	1 to 3 years	3 years and over
AAA	171.0	25.6	—
AA- to AA+	343.8	—	42.2
A- to A+	96.2	—	—
Total	611.0	25.6	42.2

* From major credit agencies.

Derivative instruments

>> With regard to derivative instruments, the potential loss resides in the creditworthiness of the counterparties. The credit risk exists only when these instruments have a positive fair value.

>> The Bank monitors and manages the credit risk associated with derivatives by applying a credit limit policy in all dealings in the derivatives market. Global contractual limits are established for each counterparty to off-balance sheet transactions. They are reviewed periodically to ensure adherence by the counterparties to the Bank's standards which are fully in line with those issued by the Department of Finance to Crown corporations.

>> To limit its credit exposure, the Bank enters into netting agreements with counterparties. The following table displays the exposure as at March 31, 2001 after the Bank had concluded these agreements.

COUNTERPARTY CREDIT RISK EXPOSURE
as at March 31, 2001 *($ in millions)*

	Term to maturity		
Credit Rating*	Less than 1 year	1 to 3 years	3 years and over
AAA	39.2	—	—
AA- to AA+	35.6	28.8	14.0
A- to A+	4.3	—	—
Total	79.1	28.8	14.0

* From major credit agencies

MARKET RISK

>> Market risk is defined as the risk that a loss may result from a change in the value of a financial instrument. It includes exposure to interest rates, foreign exchange and equity prices.

Foreign exchange risk

>> Foreign exchange risk is the exposure to potential adverse impact on net interest income due to movements in foreign exchange rates. The risk arises when borrowings are contracted in foreign currencies to fund assets in Canadian dollars.

>> The Bank fully hedges all of its foreign currency transactions with cross-currency swaps and foreign exchange forward contracts, thus eliminating any risk deriving from fluctuations in exchange rates.

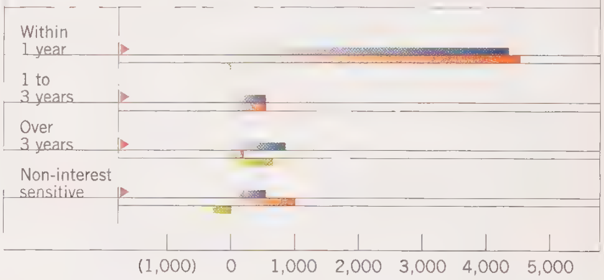
Interest rate risk

>> The Bank's loan portfolio of $5.4 billion is financed largely by borrowings of $5.0 billion on the open market, which inevitably creates an exposure to changing interest rates. That risk is managed by the Bank by closely matching the maturities of long-term notes, and the mix between short and long-term notes, against the varying maturities of the Bank's loan portfolio. At March 31, 2001, 36 percent of the Bank's loan portfolio represented loans with fixed interest rates, compared to 41 percent the previous year.

The Bank does not take funding positions nor speculate in any way, and hedges foreign currency exposure into Canadian dollars to mitigate that risk.

>> Although the Bank's borrowings are selected to match the maturity and the interest rate sensitivity of its assets, interest rate gaps may arise due to shifts in the loan portfolio. The following chart shows the interest rate gap position of the Bank as at March 31, 2001, after considering the effect of derivative instruments. The chart is not reflective of positions during subsequent periods.

INTEREST RATE SENSITIVITY GAP
as at March 31, 2001 *($ in millions)*



	Total assets	Total liabilities and shareholder's equity	Gap
Within 1 year	4,318	4,499	(181)
1 to 3 years	535	539	(4)
Over 3 years	846	197	649
Non-interest sensitive	527	991	(464)

>> The Bank also uses risk measurement and analysis techniques when assessing the impact of funding strategies. These techniques include sensitivity analysis which measures the impact of interest rate changes on the Bank's current earnings and in the economic value of its assets and liabilities. The following table displays the impact on net interest income of a 1 percent increase in rates across the entire yield curve.

IMPACT OF A 1 PERCENT CHANGE IN RATES ON THE NET INTEREST INCOME
as at March 31, 2001 *($ in millions)*

	Within 1 year	1 to 3 years	Over 3 years	Non interest sensitive	Total
Interest rate gap	(181.0)	(4.0)	649.0	(464.0)	—
Impact on net interest income	4.2	(0.6)	(27.2)	—	(23.6)
Impact as a percentage of net interest income	1.4%	(0.2%)	(9.1%)	—	(7.9%)

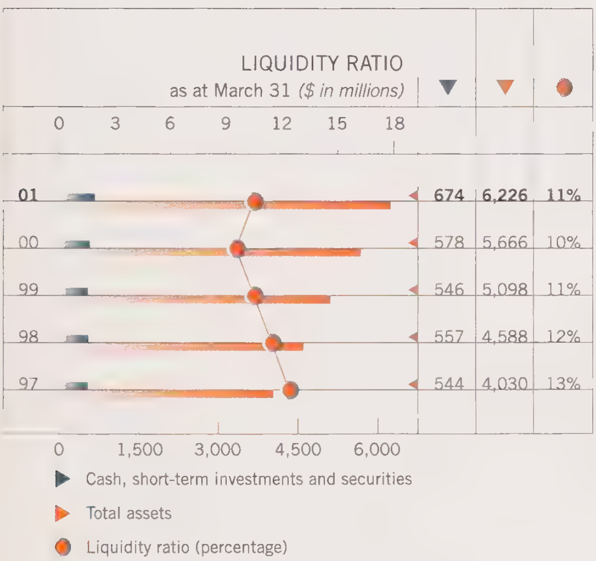
Equity prices

>> Venture capital investments include certain investments in publicly traded companies, which are consequently subject to market fluctuations. The Bank controls such risks by conservative valuation, regular monitoring and a phased divestiture policy.

LIQUIDITY RISK

>> Liquidity risk is the risk that the Bank finds itself unable to raise funds at a reasonable cost under volatile market conditions to meet its cashflow obligations as they fall due.

>> The Bank manages liquidity to ensure availability of funds at all times. The Bank has established a liquidity policy that requires close monitoring of operational cash flows and sets specific limits for day-to-day cash management. The policy also emphasizes having top quality security holdings readily marketable to meet short-term cash requirements. Diversification of sources of funds through international borrowing programs is also a key cash management strategy that the Bank applies to maintain stability in the liquidity position.



	Cash, short-term investments and securities	Total assets	Liquidity ratio (percentage)
01	674	6,226	11%
00	578	5,666	10%
99	546	5,098	11%
98	557	4,588	12%
97	544	4,030	13%

OPERATIONAL RISK

>> Operational risk is the potential for loss deriving from information systems failure, human error, breakdown of processes and any other risk not covered by market and credit risks. Among measures that the Bank takes to mitigate this risk, comprehensive policies and procedures have been established governing information process, lending operations, staff management and other key operational functions.

>> The risk associated with technology and telecommunication failures is managed through programs for replacement of computer systems and equipment, and through appropriate control procedures to ensure efficient information. The Bank has a comprehensive business recovery planning process in place to ensure continuity in its key business functions in case of disaster.

>> In its approach to managing the risk associated with human resources, the Bank encourages performance in competency and favours development of employees' skills. The Bank has established a training and development program for staff and introduced various incentives to encourage high performance.

>> The risk inherent in processes resides in incorrect reporting of information, incomplete transactions and ineffective functional routines. The Bank manages this risk by ensuring that principles of segregation of duties and clear delegation of authority are applied in day-to-day operations.

Balance sheet analysis

Driven by an 11 percent growth in the loans (net of allowance for credit losses) and venture capital portfolio, total assets increased to $6.2 billion, compared to $5.7 billion at March 2000.

>> Net outstanding loans, venture capital investments, cash and short-term assets aggregating $5.9 billion*, which comprise the Bank's principal assets, were funded by borrowings of $5.0 billion and shareholder's equity of $0.9 billion. The net portfolio growth of $507 million during fiscal 2001 was funded by borrowings of $466 million, and by $65 million of additional preferred shares, in addition to the growth in retained earnings.

Capital adequacy

>> The Bank applies certain ratios between debt and equity according to various categories of financing, to determine the adequacy of its capital base:

Commercial Lending	10:1
Subordinate Financing	4:1
Venture Capital	1:1

During fiscal 2001, the Bank operated within those ratios. The Government of Canada contributed an additional share capital of $65 million to support future planned growth in the Bank's venture capital portfolio.

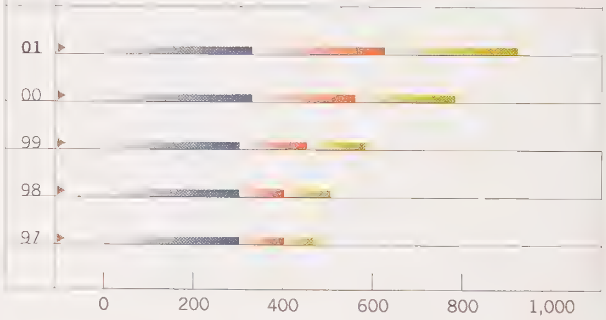
Shareholder's equity

>> Retained earnings increased by $74 million to $297 million, and preferred share capital grew by $65 million during fiscal 2001. Total shareholder's equity at year end was $923 million compared to $784 million last year, which by increasing the capital base will enable the Bank to increase its support for the growing needs of small businesses. For the fifth consecutive year, BDC has declared a dividend. The amount of the dividend for fiscal 2001 is $13.8 million, on its preferred shares payable to the Government of Canada.

>> The Bank operated within all statutory limits for the year ended March 31, 2001. At year end, the debt-to-equity ratio was 5.4:1.

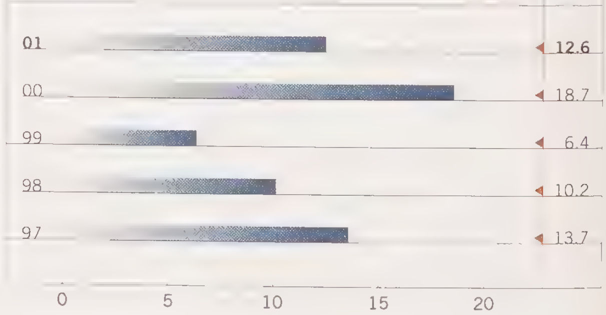
>> Net income of $88.3 million provided a return on average common shareholder's equity of 12.6 percent, 6.1 percent lower than in fiscal 2000. This decrease is due to higher levels of equity in fiscal 2001 and stronger performance in fiscal 2000.

TOTAL SHAREHOLDER'S EQUITY
as at March 31 *($ in millions)*



	Common shares	Preferred shares	Retained earnings	Total shareholder's equity
01	**331.2**	**295.0**	**297.1**	**923.3**
00	331.2	230.0	222.6	783.8
99	303.4	150.0	130.4	583.8
98	303.4	100.0	103.7	507.1
97	303.4	100.0	64.2	467.6

RETURN ON COMMON EQUITY
for the year ended March 31 *(percentage)*



* Shares are held by persons subject to section 33 of the Business Development Bank of Canada Act in Toon Boon Technologies Inc., a $3.4 million investment and in Alliance Medical Inc., a $380,000 loan.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

>> The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimation which have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

>> In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

>> The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

Michel Vennat
President and Chief Executive Officer

Alan B. Marquis
Senior Vice-President, Finance and Chief Financial Officer

Montreal, Canada
May 25, 2001

AUDITORS' REPORT

To the Minister of Industry:

>> We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2001 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

>> We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

>> In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act,* we report that, in our opinion, these principles have been applied, except for the change in the method of accounting for employee future benefits as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

>> Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Montreal, Canada
May 25, 2001

Sheila Fraser, FCA
Interim Auditor General of Canada

Ottawa, Canada
May 25, 2001

FINANCIAL STATEMENTS

BALANCE SHEET

as at March 31 *($ in thousands)*

	2001	2000
ASSETS		
Cash and short-term investments (Note 3)	$ 605,955	$ 493,903
Securities (Note 4)	67,808	83,752
	673,763	577,655
Loans, net of allowance for credit losses (Notes 5 and 6)	5,054,254	4,608,188
Venture capital investments (Note 7)	206,360	145,107
	5,260,614	4,753,295
Capital assets, net of accumulated amortization	32,318	39,879
Other assets (Note 8)	258,823	295,504
	291,141	335,383
TOTAL ASSETS	$ 6,225,518	$ 5,666,333
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	$ 55,626	$ 45,045
Accrued interest on borrowings	152,698	240,697
	208,324	285,742
Borrowings (Note 9)		
Short-term notes	2,604,399	1,965,781
Long-term notes	2,344,722	2,516,964
	4,949,121	4,482,745
Other liabilities (Note 10)	144,769	114,020
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	598,400	533,400
Contributed Surplus	27,778	27,778
Retained earnings	297,126	222,648
	923,304	783,826
Contingent Liabilities and commitments (Note 16)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 6,225,518	$ 5,666,333

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

Terry B. Grieve,
Director

Michel Vennat,
Director

STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended March 31 *($ in thousands)*	2001	2000
FINANCIAL SERVICES		
Loans		
Interest income	$ 527,419	$ 453,461
Interest expense (Note 12)	225,194	190,103
Net interest income	302,225	263,358
Provision for credit losses (Note 6)	106,000	94,000
Net interest income after provision for credit losses	196,225	169,358
Operating and administrative expenses (Note 13)	158,971	144,038
Income from Loans	37,254	25,320
Venture Capital		
Interest and dividends	5,870	539
Net realized gains on investments	75,756	112,708
Other	2,549	1,053
Investment income	84,175	114,300
Write-down of investments	13,306	14,720
Net investment income	70,869	99,580
Operating and administrative expenses (Note 13)	14,701	19,541
Income from Venture Capital	56,168	80,039
INCOME FROM FINANCIAL SERVICES	93,422	105,359
CONSULTING GROUP		
Revenue	17,724	19,396
Operating and administrative expenses (Note 13)	22,824	23,650
LOSS FROM CONSULTING GROUP	(5,100)	(4,254)
NET INCOME	88,322	101,105
RETAINED EARNINGS		
Beginning of year	222,648	130,432
Dividend on preferred shares	(13,844)	(8,889)
End of year	$ 297,126	$ 222,648

The accompanying Notes to Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

for the year ended March 31 *($ in thousands)*

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 88,322	$ 101,105
Adjustments to determine net cash flows:		
Net realized gains on venture capital investments	(75,756)	(112,708)
Provision for credit losses and write-down of venture capital investments	119,306	108,720
Amortization of capital assets	11,785	11,865
Change in interest receivable on loans	(3,932)	895
Change in accrued interest on borrowings	14,797	(13,668)
Translation adjustment on borrowings and securities	18,025	33,129
Net increase (decrease) in unrealized gains and amounts receivable on derivative financial instruments	49,403	(122,239)
Net (decrease) increase in unrealized losses on derivative financial instruments	(77,223)	101,445
Net change in other assets and other liabilities	3,035	1,551
NET CASH PROVIDED BY OPERATING ACTIVITIES	147,762	110,095
CASH FLOWS USED IN INVESTING ACTIVITIES		
Disbursements for loans	(1,710,228)	(1,443,950)
Disbursements for venture capital investments	(83,508)	(69,323)
Repayments of loans	1,162,094	1,003,274
Proceeds on sales of venture capital investments	84,705	128,984
Net acquisition of capital assets	(4,224)	(12,500)
NET CASH USED IN INVESTING ACTIVITIES	(551,161)	(393,515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of long-term notes	511,542	1,040,462
Repayment of long-term notes	(672,561)	(531,728)
Net change in short-term notes	604,247	(281,402)
Net change in securities	21,067	3,064
Proceeds from issue of preferred shares	65,000	80,000
Contributed cash on transfer of Cultural Industries Development Fund	—	17,634
Dividend paid on preferred shares	(8,889)	(6,010)
Other	(4,955)	(2,879)
NET CASH PROVIDED BY FINANCING ACTIVITIES	515,451	319,141
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	112,052	35,721
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	493,903	458,182
CASH AND SHORT-TEM INVESTMENTS AT END OF YEAR	$ 605,955	$ 493,903
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid in the year	$ 210,397	$ 203,771

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

March 31, 2001 *($ in thousands except as otherwise indicated)*

1. ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

>> The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly owned by the Government of Canada and is exempt from income taxes.

>> The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. The Bank offers to Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

>> To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. *The Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

>> The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs and disclosure of fair values of venture capital investments. A variation in the circumstances or economic conditions under which these estimates are made could result in a significant change in these management judgements. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

>> Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are netted against interest expense.

Loans

>> Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

>> Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

>> For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses*, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

>> The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

>> The allowance for credit losses is comprised of specific and general allowances.

>> Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent in the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

>> The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture capital investments

>> Venture capital investments are recorded at cost, whereby interest and dividends are included in income when received. Investments in venture capital and seed capital funds over which the Bank has joint control or significant influence are accounted for using the proportionate consolidation or equity accounting method, respectively. Under these methods, the Bank accrues its share of the undistributed income or expenses of the funds. Gains or losses on disposal of investments are recognized in income when realized. However, when the value of an investment is permanently impaired, the investment is written down to recognize the loss.

>> Non-cash consideration received on disposal of investments is presented as temporary investments within venture capital investments and recorded at the lower of the value at the date of the sale of the venture capital investment and current market value at the balance sheet date.

Capital assets and amortization

>> Capital assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

• Computer equipment and software	3-7 years
• Furniture and fixtures	5 years
• Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, discounts and debt issue expenses

>> Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

>> Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

Derivative financial instruments

>> The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. These financial instruments are used as hedges for the sole purpose of matching assets and liabilities. These derivatives are accounted for on an accrual basis with the related revenue or expense recognized over the life of the hedged position as an adjustment to interest expense.

>> Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

Employee future benefits

>> The Bank maintains defined benefit pension plans for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments.

>> The net pension expense or credits is comprised of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on pension liabilities, expected income on plan assets based on an average of market-related values, the amortization of experience gains or losses in respect of the plan over the expected average remaining service life of the active employees, and any adjustments arising from changes to the plan or the plan assumptions.

>> Amortization of actuarial gains or losses is recognized in the expense for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligation or 10% of the fair market value of the plan assets, whichever is greater. Amortization corresponds to the excess divided by active employees' expected average remaining service life.

>> The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits which are accrued based on actuarial valuations.

>> Effective April 1, 2000, the Bank prospectively adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants with respect to employee future benefits. Previously, the discount rate used to determine the present value of accrued benefits was based on long-term investment yields. The cumulative effect of this change (transitional obligation or asset) is being recognized in income over the active employee's expected average remaining service life. The change did not have a material effect on net income for the current year.

3. **CASH AND SHORT-TERM INVESTMENTS**

>> Cash and short-term investments comprise bank account balances, net of cheques outstanding, and short-term bank deposits for terms less than 90 days.

4. **SECURITIES**

	Term to maturity			
	1 to 3 years	Over 3 years	**2001 Total**	2000 Total
Canada				
Carrying value	$ 25,605	$ —	**$ 25,605**	$ 44,323
Yield	6.59%	—	**6.59%**	6.96%
Fair value	$ 26,132	$ —	**$ 26,132**	$ 45,197
Financial Institutions				
Carrying value	$ —	$ 42,203	**42,203**	39,429
Yield	—	5.80%	**5.80%**	6.32%
Fair value	$ —	$ 43,165	**43,165**	39,471
Total				
Carrying value	$ 25,605	$ 42,203	**$ 67,808**	$ 83,752
Yield	6.59%	5.80%	**6.10%**	6.66%
Fair value	$ 26,132	$ 43,165	**$ 69,297**	$ 84,668
Swap Contracts				
Notional amount	$ 24,950	$ 40,000	**$ 64,950**	$ 86,180
Adjusted yield[1]	5.32%	5.45%	**5.40%**	5.37%
Amounts denominated in foreign currencies included in the carrying value of securities				
	US dollars	36,964		
	GB pounds	2,000		$ 58,093
	US dollars	36,964	**$ 58,240**	

(1) After adjusting for the effect of related derivatives (see Note 15).

4. **SECURITIES** (continued)

>> All securities held as at March 31 were issued by Canadian entities at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to adjust the interest rate and the foreign exchange risks associated with the above securities.

5. **LOANS**

>> The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2001		2000	
Performing — floating	$ 3,282,891	9.45%	$ 2,736,660	9.76%
Performing — fixed				
Under one year	415,658	9.67%	454,423	9.78%
1 to 2 years	220,343	9.28%	267,299	9.47%
2 to 3 years	364,963	9.37%	209,024	9.20%
3 to 4 years	174,633	9.66%	394,291	9.37%
4 to 5 years	235,669	9.74%	163,885	9.62%
Over 5 years	446,009	9.22%	442,275	8.89%
Performing	5,140,166		4,667,857	
Impaired	272,242		235,135	
Total loans	5,412,408		4,902,992	
Allowance for credit losses				
General	(261,982)		(206,739)	
Specific	(96,172)		(88,065)	
	(358,154)		(294,804)	
Loans, net of allowance for credit losses	$ 5,054,254		$ 4,608,188	

>> The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The Bank believes it does not have any significant concentrations in any individual or related group of clients.

Geographic Distribution	2001		2000	
Newfoundland	$ 188,830	3.5%	$ 164,000	3.3%
Prince Edward Island	41,140	0.8%	43,840	0.9%
Nova Scotia	112,203	2.1%	105,974	2.1%
New Brunswick	213,562	4.0%	182,547	3.7%
Quebec	2,239,607	41.4%	2,024,962	41.3%
Ontario	1,519,773	28.1%	1,297,346	26.5%
Manitoba	91,788	1.7%	94,612	1.9%
Saskatchewan	98,984	1.8%	100,678	2.1%
Alberta	309,950	5.7%	272,127	5.6%
British Columbia	543,699	10.0%	562,403	11.5%
Yukon	24,093	0.4%	27,603	0.6%
Northwest Territories and Nunavut	28,779	0.5%	26,900	0.5%
Total loans outstanding	$ 5,412,408	100.0%	$ 4,902,992	100.0%

6. **ALLOWANCE FOR CREDIT LOSSES**

>> The following table summarizes the changes in the allowance for credit losses as at March 31.

	2001	2000
Balance at beginning of year	$ 294,804	$ 252,448
Write-offs	(40,130)	(50,704)
Interest income due to accretion	(4,885)	(2,918)
Recoveries	2,365	1,978
	252,154	200,804
Provision for credit losses	106,000	94,000
Balance at end of year	$ 358,154	$ 294,804

7. **VENTURE CAPITAL INVESTMENTS**

>> The Bank maintains a portfolio of venture capital investments which is focused on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The Bank believes it does not have any significant concentrations in any individual client.

	2001		2000	
Industry Sector	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Biotechnology/Medical/Health	$ 65,745	$ 95,830	$ 48,140	$ 81,344
Computer	38,530	41,712	27,469	73,557
Venture Capital Seed Funds	28,406	28,406	20,231	20,231
Venture Capital Funds	250	9,050	2,104	9,604
Electronics	27,139	40,728	18,519	47,319
Communications	34,235	55,410	16,704	32,795
Industrial	3,658	3,658	4,663	4,914
Consumer-related	2,538	2,574	2,538	2,574
Other	5,859	6,438	4,739	6,405
Venture capital investments	$ 206,360	$ 283,806	$ 145,107	$ 278,743

(See Note 14 for determination of fair value)

>> The preceding table includes $11,829 of temporary investments, with a fair value of $11,829.

>> Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

(Carrying Value)	2001	2000
Common shares	$ 114,491	$ 79,265
Preferred shares	77,040	51,213
Debentures	14,829	14,629
Venture capital investments	$ 206,360	$ 145,107

7. VENTURE CAPITAL INVESTMENTS (continued)

>> The Bank has invested in T^2C^2 Bio, T^2C^2 Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2001	2000
Current assets	$ 2,924	$ 3,220
Venture capital investments	25,077	13,454
Other assets	20	26
Current liabilities	76	23
Investment income	1,666	346
Operating and administrative expenses	1,119	4,291
Net gain (loss)	547	(3,945)
Cash flows from (used in):		
Operating activities	(1,006)	(3,471)
Investing activities	(8,588)	(13,955)
Financing activities	9,270	20,533

8. OTHER ASSETS

	2001	2000
Unrealized gains and amounts receivable on derivative financial instruments	$ 216,415	$ 265,818
Accrued benefit asset	37,883	22,174
Unamortized debt issue expenses on long-term notes	1,868	3,738
Other	2,657	3,774
	$ 258,823	$ 295,504

>> Unrealized gains and amounts receivable on derivative financial instruments are receivable from counterparties to derivative contract and generally correspond to foreign currency and other adjustments in the underlying borrowings. Unrealized losses and amounts payable to counterparties under derivative contracts are included in "Other liabilities" (see Note 10) and in "Accrued interest on borrowings".

9. BORROWINGS

>> The Bank issues debt instruments in world capital markets to fund its loan portfolio. All foreign exchange risk is hedged through the use of derivatives. In addition, where appropriate, the Bank enters into interest rate, cross-currency interest rate and equity-linked swap contracts to hedge the related interest rate and equity market risks. The table below shows the outstanding notes as at March 31.

Maturity date	Effective rate	Currency	Nominal amount ('000)	2001	2000
Short-term notes					
2001	4.74% - 5.53%	US dollars	386,000		
		CDN dollars	1,422,750		$ 1,965,781
2002	4.74% - 5.81%	US dollars	610,100		
		CDN dollars	1,658,840	$ 2,604,399	
Total short-term notes				$ 2,604,399	$ 1,965,781

9. BORROWINGS (continued)

Maturity date	Effective rate*	Currency	Principal amount ('000)	2001	2000
Long-term notes					
2001	4.72% — 7.43%	US dollars	15,449		
		Yen	701,390		
		CDN dollars	327,500		$ 363,096
2002	4.57% — 5.60%	US dollars	152,500		
	4,79%	Yen	2,000,000		
	4.36% — 5.03%	CDN dollars	318,000	$ **573,905**	409,315
2003	4.77% — 6.25%	CDN dollars		**163,500**	168,500
2004	4.67% — 6.10%	CDN dollars		**368,154**	233,500
2005	4,69%	Yen	500,000		
	4.78% — 5.13%	CDN dollars	60,000	**68,384**	96,363
2006	4.56% — 5.65%	CDN dollars		**178,984**	190,400
2007	4,61%	Euro	4,587		
	4.71% — 4.75%	US dollars	15,196		
	4.51% — 6.01%	CDN dollars	188,477	**214,504**	176,574
2008	4.61% — 5.71%	CDN dollars		**105,600**	92,000
2009	4.64% — 5.39%	CDN dollars		**131,950**	70,950
2010	5,82%	US dollars	15,000		
	4.69% — 5.53%	Yen	5,100,000		
	4.72% — 4.95%	CDN dollars	28,000	**129,728**	217,692
2011	4,71%	US dollars	10,000		
	4.54% — 4.65%	Yen	1,500,000		
	4.36% — 5.25%	CDN dollars	65,000	**103,927**	65,000
2012	4.65% — 4.91%	Yen	7,600,000		
	4.70% — 4.83%	CDN dollars	43,000	**144,868**	184,652
2015	4.58% — 4.91%	Yen	10,700,000	**133,723**	248,922
2016	4.68% — 4.70%	Yen	2,200,000	**27,495**	
Total long-term notes				$ **2,344,722**	$ 2,516,964

** The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 15.*

>> The preceding table includes $1,745,068 in 2001 and $1,876,964 in 2000 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio.

>> The maturity dates for callable and extendable notes are presented based on their first option date.

9. **BORROWINGS** (continued)

>> The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the previous table are as follows:

	2001	2000
Interest-bearing notes	$ 790,160	$ 822,110
Notes linked to equity indices	485,298	325,353
Notes linked to currency rates	291,454	408,453
Notes linked to swap rates	119,867	195,852
Notes callable prior to maturity	270,950	355,565
Notes extendible beyond maturity	153,000	163,000
Other structured notes	233,993	246,631
	$ 2,344,722	$ 2,516,964

>> As at March 31, 2001 the payment requirements and maturities of long-term notes are as follows:

2002	$ 573,905
2003	163,500
2004	368,154
2005	68,384
2006	178,984
2007 and later	991,795
	$ 2,344,722

10. **OTHER LIABILITIES**

	2001	2000
Deferred income	$ 1,420	$ 2,362
Accrued benefit liability	78,903	72,549
Unrealized losses on derivative financial instruments	41,486	15,913
Other	22,960	23,196
	$ 144,769	$ 114,020

11. SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding	2001			2000		
	Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares						
Class A — Series 1	500,000	$ 50,000	5.595%	500,000	$ 50,000	5.595%
— Series 2	500,000	50,000	6.545%	500,000	50,000	5.215%
— Series 3	500,000	50,000	5.515%	500,000	50,000	5.515%
— Series 4	400,000	40,000	6.270%	400,000	40,000	6.270%
— Series 5	400,000	40,000	6.270%	400,000	40,000	6.270%
— Series 6	650,000	65,000	4.933%			
		295,000			230,000	
Common shares	3,034,000	303,400		3,034,000	303,400	
Total Outstanding Share Capital		$ 598,400			$ 533,400	

>> *Class A Preferred Shares* have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from one to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.230% to 0.375%.

>> During the year ended March 31, 2001, the Bank issued 650,000 Class A - Series 6 preferred shares for cash consideration of $65,000.

Statutory Limitations

>> The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank.

>> Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $1.5 billion.

12. INTEREST EXPENSE

	2001	2000
Interest on borrowings	$ 264,166	$ 218,224
Security and short-term investment income	(38,972)	(28,121)
	$ 225,194	$ 190,103

13. OPERATING AND ADMINISTRATIVE EXPENSES

	2001			2000		
	Financial Services		Consulting Group	Financial Services		Consulting Group
	Loans	Venture Capital		Loans	Venture Capital	
Salaries and staff benefits	$ 79,276	$ 9,365	$ 16,369	$ 68,811	$ 11,438	$ 16,111
Premises and equipment	25,486	868	2,353	23,723	1,015	2,496
Other expenses	54,209	4,468	4,102	51,504	7,088	5,043
	$ 158,971	$ 14,701	$ 22,824	$ 144,038	$ 19,541	$ 23,650

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

>> The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However many of the financial instruments lack an available trading market. Therefore, in these cases fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

>> The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2001			2000		
	Carrying value	Fair value	Fair value over (under) Carrying value	Carrying value	Fair value	Fair value over (under) Carrying value
Balance Sheet						
Assets						
Cash and short-term investments	$ 605,955	$ 605,955	$ —	$ 493,903	$ 493,903	$ —
Securities (Note 4)	67,808	69,297	1,489	83,752	84,668	916
Loans, net of allowance for credit losses	5,054,254	5,080,582	26,328	4,608,188	4,572,992	(35,196)
Venture capital investments	206,360	283,806	77,446	145,107	278,743	133,636
Other assets	2,657	2,657	—	3,774	3,774	—
	$ 5,937,034	$ 6,042,297	$ 105,263	$ 5,334,724	$ 5,434,080	$ 99,356
Liabilities						
Accounts payable and accrued liabilities	$ 55,626	$ 55,626	$ —	$ 45,045	$ 45,045	$ —
Accrued interest on borrowings	152,698	152,698	—	240,697	240,697	—
Short-term notes	2,604,399	2,604,399	—	1,965,781	1,965,781	—
Long-term notes	2,344,722	2,427,158	82,436	2,516,964	2,615,440	98,476
	$ 5,157,445	$ 5,239,881	$ 82,436	$ 4,768,487	$ 4,866,963	$ 98,476
			$ 22,827			$ 880
Derivative financial instruments (Note 15)	$ 87,077	$ 89,430	$ 2,353	$ 187,098	$ 184,619	$ (2,479)
Total			$ 25,180			$ (1,599)

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

>> Fair values are based on a range of valuation methods and assumptions which are as follows:

>> *Financial instruments valued at carrying value* — The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

>> *Securities* - The fair value of securities is provided in Note 4 to the financial statements.

>> *Loans* - For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses.*

>> *Venture capital investments* - For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

>> *Long-term notes* - The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

>> *Derivative financial instruments* - The fair value of derivative financial instruments is provided in Note 15 to the financial statements.

15. DERIVATIVE FINANCIAL INSTRUMENTS

>> The Bank enters into derivative financial instruments as hedging transactions for the sole purpose of matching its assets and liabilities and hedging market risk exposure. These transactions are designed to reduce the Bank's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange.

>> Depending on the circumstances, these transactions may include the following:

Swaps

>> Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Currency swaps* involve exchange of currencies at specific prices and dates. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps,* one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

>> *Forwards and futures* are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

Options

>> *Options* are agreements in which the writer (or the seller) of the option grants the buyer the right, but not the obligation, to buy or sell a specific amount of a currency, commodity or financial instrument at a price agreed upon when the options are arranged. The writer receives a premium for selling this instrument.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

>> The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

	2001			2000		
	Positive	**Negative**	**Net Amount**	Positive	Negative	Net Amount
Derivative financial instruments						
Interest rate swap contracts	$ **7,385**	$ **21,199**	$ **(13,814)**	$ 6,896	$ 20,319	$ (13,423)
Equity-linked swap contracts	**70,854**	**41,391**	**29,463**	131,350	1,776	129,574
Forward rate agreements	**295**	**14**	**281**	—	—	—
Cross-currency interest rate swap contracts	**65,402**	**26,649**	**38,753**	100,162	25,241	74,921
Foreign exchange contracts						
Currency forward contracts	**34,747**	**—**	**34,747**	985	2,976	(1,991)
Option contracts	**—**	**—**	**—**	—	4,462	(4,462)
Total fair value	$ **178,683**	$ **89,253**	$ **89,430**	$ 239,393	$ 54,774	$ 184,619
Less impact of master netting agreements	**56,812**	**56,812**	**—**	42,858	42,858	—
Total	$ **121,871**	$ **32,441**	$ **89,430**	$ 196,535	$ 11,916	$ 184,619

>> The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

>> The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

15. **DERIVATIVE FINANCIAL INSTRUMENTS** (continued)

Counterparty Credit Risk Exposure

	Counterparty Ratings			
	AAA	**AA- to AA+**	**A to A+**	**Total**
Gross positive replacement cost	**$ 39,534**	**$ 133,148**	**$ 6,001**	**$ 178,683**
Impact of master netting agreements	**(370)**	**(54,766)**	**(1,676)**	**(56,812)**
Replacement cost (after master netting agreements)	**$ 39,164**	**$ 78,382**	**$ 4,325**	**$ 121,871**
Replacement cost (after master netting agreements) — 2000	$ 33,818	$ 153,926	$ 8,791	$ 196,535
Number of counterparties				
March 31, 2001	**3**	**9**	**3**	
March 31, 2000	2	11	2	

>> The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								**2001**		2000	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Interest rate contracts												
$CDN payable — fixed	$ 234,000	5.47	$ 53,798	5.74	$ 10,000	5.45	$ 22,195	6.01	**$ 319,993**	**$ —**	$ 442,745	$ 2,107
$CDN receivable — fixed	281,580	5.24	16,000	5.39	—		254,950	5.80	**552,530**	**5,295**	615,646	1,617
$US receivable — fixed	—		—		—		—		**—**	**—**	4,873	22
Basis swaps	1,015,000	n.a.	—		—		—		**1,015,000**	**426**	105,000	2,044
Equity-linked swap contracts	25,939	n.a.	141,000	n.a.	93,360	n.a.	296,940	n.a.	**557,239**	**70,854**	373,574	131,350
Other contracts	—	n.a.	—		—		22,195	n.a.	**22,195**	**1,664**	81,195	1,106
	1,556,519		210,798		103,360		596,280		**2,466,957**	**78,239**	1,623,033	138,246
Forward rate agreements	240,000		—		—		—		**240,000**	**295**	—	—
Cross-currency interest rate swap contracts	222,514	n.a.	24,950	n.a.	36,180	n.a.	621,233	n.a.	**904,877**	**65,402**	1,200,049	100,162
Total interest rate contracts	2,019,033		235,748		139,540		1,217,513		**3,611,834**	**143,936**	2,823,082	238,408
Foreign exchange contracts												
Currency forward contracts	952,077	n.a.	—		—		—		**952,077**	**34,747**	614,536	985
Total foreign exchange contracts	952,077								**952,077**	**34,747**	614,536	985
Option contracts	—		—		—		—		**—**	**—**	3,415	—
Total	$2,971,110		$235,748		$139,540		$ 1,217,513		**$ 4,563,911**	**$ 178,683**	$3,441,033	$ 239,393
Less impact of master netting agreements	—		—		—		—		**—**	**56,812**	—	42,858
Total	$2,971,110		$235,748		$139,540		$ 1,217,513		**$ 4,563,911**	**$ 121,871**	$3,441,033	$ 196,535

n.a. — not applicable or weighted rates are not significant.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

>> The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

>> Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

>> The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent.

16. CONTINGENT LIABILITIES AND COMMITMENTS

>> As at March 31, 2001:

a) various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that the aggregate liability resulting from these proceedings will not be material.

b) the undisbursed amounts on loans authorized total $636,545. These loan commitments are for an average period of three months ($121,708 in fixed, $514,837 in floating). The effective interest rates on these loan commitments vary from 6.6% to 20.0%. The undisbursed amounts on authorized venture capital investments total $63,472.

c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

2002	$ 15,865
2003	15,235
2004	14,837
2005	14,565
2006	13,754
2007 - 2021	111,884
	$ 186,140

17. EMPLOYEE FUTURE BENEFITS

>> The Bank maintains defined benefit pension plans (the "Pension Plans") for eligible employees, which provide post-retirement benefits based on number of years of service and average final pay. The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits (the "Other Plans"). Commencing March 31,1993, post-retirement benefits other than pensions are accounted for on an accrual basis. The effect of this change, which was applied prospectively, resulted in a cumulative liability of $28,800 being recognised in fiscal 1993.

17. EMPLOYEE FUTURE BENEFITS (continued)

>> Pension and other post-retirement expense is included in Salaries and Staff benefits and is as follows:

	Registered Pension Plan	Supplemental Pension Plans	Other Plans
Plan expense (credit)			
Current service cost	$ 10,024	$ 519	$ 2,191
Interest cost on benefit obligation	22,733	1,361	4,554
Expected return on plan assets	(35,025)	(216)	—
Amortization of transitional obligation (asset)	(13,441)	(267)	315
Amortization of net actuarial loss	—	—	19
Expense (credit) for the year ended March 31, 2001	$ (15,709)	$ 1,397	$ 7,079
Expense (credit) for the year ended March 31, 2000	$ (12,513)	$ 3,926	$ 6,891

>> The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered Pension Plan	Supplemental Pension Plans	Other Plans
Change in accrued benefit obligation			
Balance at beginning of year	$ 309,057	$ 18,356	$ 61,672
Current service cost	10,024	519	2,191
Interest cost on benefit obligation	22,733	1,361	4,554
Benefits paid	(15,911)	(403)	(1,921)
Actuarial loss	22,221	6,224	1,775
Balance at end of year	348,124	26,057	68,271
Change in fair value of plan assets			
Balance at beginning of year	$ 445,481	$ 4,084	$ —
Employee contributions[1]	35	—	—
Employer contributions	—	145	461
Actual return on plan assets during the year	44,433	117	—
Benefits paid	(15,911)	(403)	(461)
Balance at end of year	474,038	3,943	—
Surplus (deficit) at end of year	$ 125,914	$ (22,114)	$ (68,271)
Employer contributions after December 31	—	20	150
Unamortized transitional obligation (asset)[2]	(100,809)	(17)	3,249
Unamortized net actuarial loss	12,778	6,324	1,756
Accrued benefit asset (liability) at end of year[3]	$ 37,883	$ (15,787)	$ (63,116)

1 Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized.

2 Transitional balances as at April 1, 2000 and past service costs from amendments to the plans are amortized on a straight-line basis over the active employees' expected average remaining service life. The active employees' expected average remaining service life under the Pension Plans ranges from 6.8 years to 8.5 years. The expected average remaining service life of the active employees covered by the Other Plans is 13 years for all but one of the plans, in which case it is 8.5 years.

3 Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate.

17. **EMPLOYEE FUTURE BENEFITS** (continued)

>> Included in the accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental Pension Plans	Other Plans
Fair value of plan assets	$ 3,943	$ —
Accrued benefit obligation	26,057	68,271

>> The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations (weighted averages) are as follows:

	Registered Pension Plan	Supplemental Pension Plans	Other Plans
Significant actuarial assumptions			
Discount rate at beginning of year	7.30%	7.30%	7.30%
Discount rate at end of year	7.00%	7.00%	7.00%
Expected long-term rate of return on plan assets[1]	8.00%	5.00%	—

1 The expected long-term return on plan assets is calculated using assets valued at fair market value.

>> The average rate of compensation increase is expected to be inflation (assumed to be 3.75%) plus a 1% productivity gain plus an adjustment for merit and promotion.

>> For measurement purposes, medical costs were assumed to increase with inflation, plus a further increase of 3.5% in 2002 graded down by 0.5% each year to 4.75% for 2007 and subsequent years.

18. **RELATED PARTY TRANSACTIONS**

>> The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

19. **SEGMENTED RESULTS OF OPERATIONS**

>> The operations of the Bank are grouped into the business segments of Loans, Venture Capital and the Consulting Group. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income consistent with the practice in previous years.

20. **COMPARATIVE FINANCIAL DATA**

>> Certain comparative figures have been reclassified to conform with the presentation adopted in 2001.

FIVE-YEAR OPERATIONAL AND FINANCIAL SUMMARY

OPERATIONAL STATISTICS for the year ended March 31 *($ in thousands)*	**2001**	2000	1999	1998	1997
FINANCIAL SERVICES					
Total financing committed as at March 31					
Amount	**$ 6,353,362**	$5,641,379	$5,090,228	$4,586,083	$4,038,176
Number of customers	**19,884**	18,807	17,923	17,414	16,383
Committed to lending customers as at March 31					
Amount	**$ 6,057,285**	$5,446,309	$4,933,237	$4,461,411	$3,964,865
Number of customers	**19,753**	18,708	17,833	17,335	16,317
Committed to investment customers as at March 31					
Amount	**$ 296,077**	$ 195,070	$ 156,991	$ 124,672	$ 73,311
Number of customers	**131**	99	90	79	66
Total financing authorized					
Number	**6,519**	6,412	6,082	5,815	5,727
Net amount	**$ 1,652,076**	$1,435,288	$1,271,937	$1,234,968	$1,027,104
Lending authorized					
Number	**6,448**	6,350	6,035	5,773	5,696
Net amount	**$ 1,537,914**	$1,372,492	$1,230,130	$1,171,977	$ 997,565
Investments authorized					
Number	**71**	62	47	42	31
Net amount	**$ 114,162**	$ 62,796	$ 41,807	$ 62,991	$ 29,539
FINANCIAL STATISTICS					
Net interest income as a percentage of average loan portfolio	**5.8%**	5.6%	5.6%	5.6%	5.5%
Provision for credit losses as a percentage of average loan portfolio	**2.0%**	2.0%	1.4%	1.3%	1.1%
Operating and administrative expenses as a percentage of average loan portfolio	**3.1%**	3.0%	3.2%	3.0%	3.0%
Loan operations productivity ratio	**52.6%**	54.7%	57.4%	53.3%	54.4%
BDC CONSULTING GROUP					
Revenue from activities	**$ 17,724**	$ 19,396	$ 17,823	$ 21,458	$ 19,758
Cost recovery rate (prior to 1998 excludes long-term accruals)	**78%**	82%	77%	69%	59%

FINANCIAL INFORMATION ($ in thousands)	**2001**	2000	1999	1998	1997
STATEMENT OF INCOME					
for the year ended March 31					
Net income (excluding Parliamentary appropriation)	**$ 88,322**	$ 101,105	$ 32,784	$ 45,474	$ 43,720
Parliamentary appropriation	**$ —**	$ —	$ —	$ —	$ 6,948
Net income	**$ 88,322**	$ 101,105	$ 32,784	$ 45,474	$ 50,668
Net income (loss)					
Loans	**$ 37,254**	$ 25,320	$ 42,124	$ 50,737	$ 48,424
Venture Capital	**$ 56,168**	$ 80,039	$ (4,124)	$ 4,217	$ 9,948
Consulting Group	**$ (5,100)**	$ (4,254)	$ (5,216)	$ (9,480)	$ (14,652)
Net income (excluding Parliamentary appropriation)	**$ 88,322**	$ 101,105	$ 32,784	$ 45,474	$ 43,720
BALANCE SHEET					
as at March 31					
Loans, net of allowance for credit losses	**$ 5,054,254**	$4,608,188	$4,248,745	$3,838,305	$3,386,356
Venture capital investments, net of accumulated write-down of investments	**$ 206,360**	$ 145,107	$ 110,298	$ 70,046	$ 41,444
Total assets	**$ 6,225,518**	$5,666,333	$5,098,461	$4,587,989	$4,029,805
Total shareholder's equity	**$ 923,304**	$ 783,826	$ 583,832	$ 507,058	$ 467,594
Total liabilities	**$ 5,302,214**	$4,882,507	$4,514,629	$4,080,931	$3,562,211
Average loan portfolio	**$ 5,194,279**	$4,736,601	$4,281,607	$3,855,662	$3,467,174

BDC SERVICES IN BRIEF

>> BDC is structured to offer a variety of flexible and specialized financial products, as well as consulting services to help Canadian small businesses grow and successfully compete in an ever-changing global environment. The Bank's philosophy is to respond to the needs of entrepreneurs with timely and relevant business solutions to ensure their complete satisfaction.

BDC Financial Services

— The Bank provides a wide range of term loans with flexible repayment conditions. BDC supports companies at every stage of their growth in almost every sector of the economy. For instance, the Bank is very active in the manufacturing and tourism sectors, and maintains a particular focus on knowledge-based and exporting industries. The Bank also responds to the particular needs of growing target markets, such as women, Aboriginal and young entrepreneurs.

— Subordinate Financing of up to $250,000 is offered to growing businesses with promising market niches. This form of higher-risk financing is a hybrid instrument that has the features of both debt and equity.

BDC Investment Group

BDC Investment Group offers venture capital and subordinate financing to meet the special needs of growth-oriented businesses. The Bank provides venture capital especially to early stage high technology companies that have a clear vision of their market, excellent growth potential and are export-oriented. BDC Investment Group also offers fast growing and more mature small businesses subordinate financing above $250,000, which is a unique type of quasi-equity loan.

BDC Consulting Group

>> Through its national network of private sector consultants, BDC Consulting Group offers small business entrepreneurs affordable, customized and effective solutions to enhance their management skills. It also helps entrepreneurs assess, plan and implement winning strategies, especially in the areas of growth, quality, export and e-business. BDC Consulting Group provides solutions that enable growth-minded businesses to take their place in the world economy.

BDC Connex®

>> With the creation of BDC Connex® in 1998, the Bank became the first financial institution in Canada to offer its clients the entire range of its financial products online, such as the Tourism Investment Fund, Global Line of Credit® and Student Business Loans Program. BDC Connex® is the Bank's virtual branch that is readily accessible to small businesses wishing to learn about BDC products and services, as well as to do business online.

ɔcument existe également en français.

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Business Development Bank of Canada
BDC Building
5 Place Ville Marie
Suite 400
Montreal, Quebec H3B 5E7
1 888 INFO-BDC (1 888 463-6232)
www.bdc.ca

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2002 annual report

INNOVATION

what innovation means to entrepreneurs

Canada

Business Development Bank of Canada
In Business for Small Business

BDC

Our Mission | The Business Development Bank of Canada is a financial institution wholly owned by the Government of Canada. BDC plays a leadership role in delivering financial and consulting services to Canadian small business, with a particular focus on the technology and export sectors of the economy.

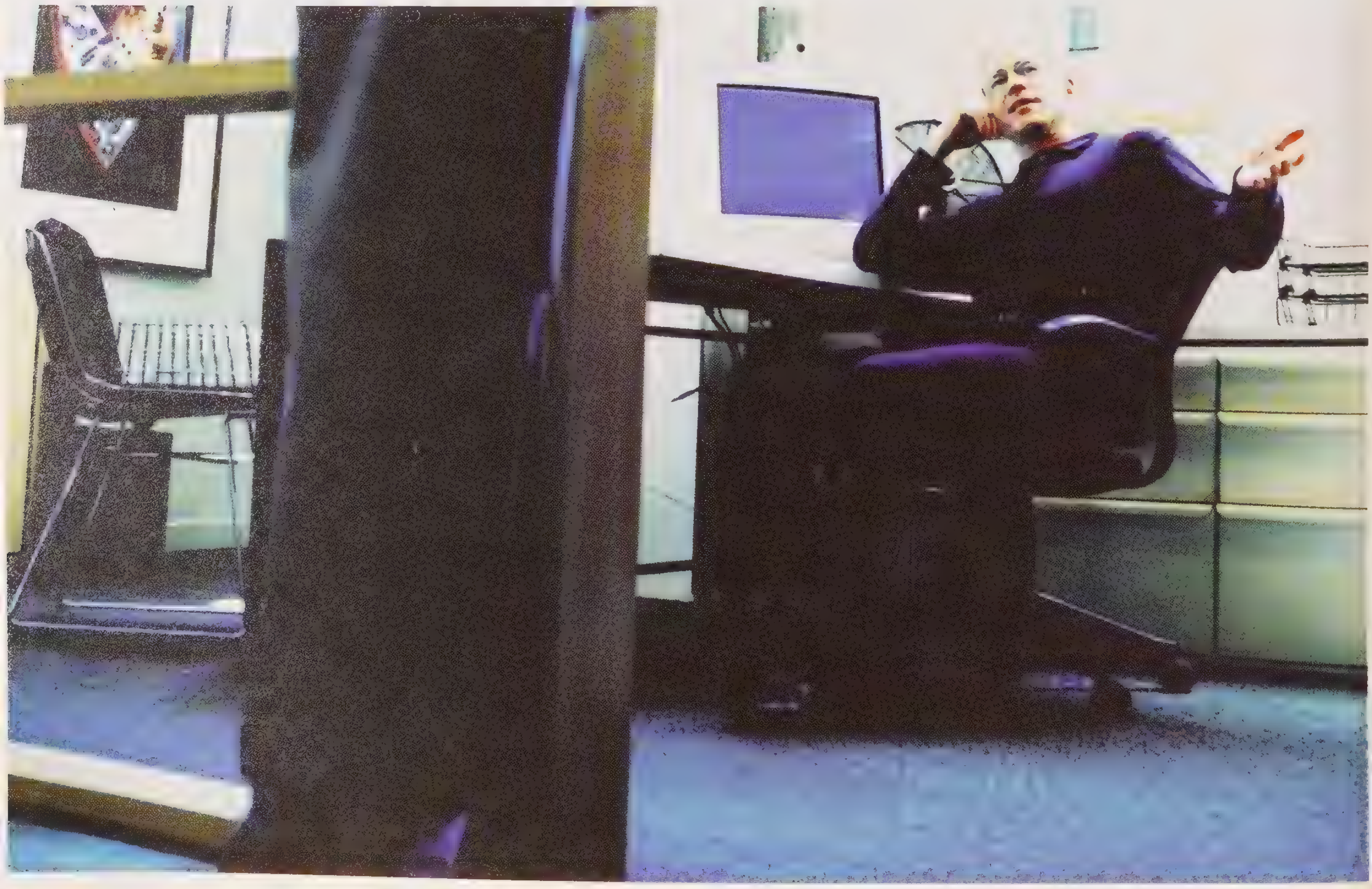
BDC's debt obligations are issued to the public and to private sector institutions and are secured by the Government of Canada.

Our Vision | Make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

Our Key Services | Financial services (term loans) | Subordinate financing | Venture capital | Consulting services | BDC Connex® (financial products online).

Innovation in action | When Canada's small businesses focus on innovation, we all prosper. BDC proudly supports the thousands of small businesses across the country that are turning innovative ideas into commercial success stories. We salute the entrepreneurs who are combining the talents of youth and experience to forge new paths, embrace new technologies and explore new markets. We applaud their efforts at the forefront of change. And we are solidly behind them with innovative financing solutions and dedicated service tailored to their evolving needs.

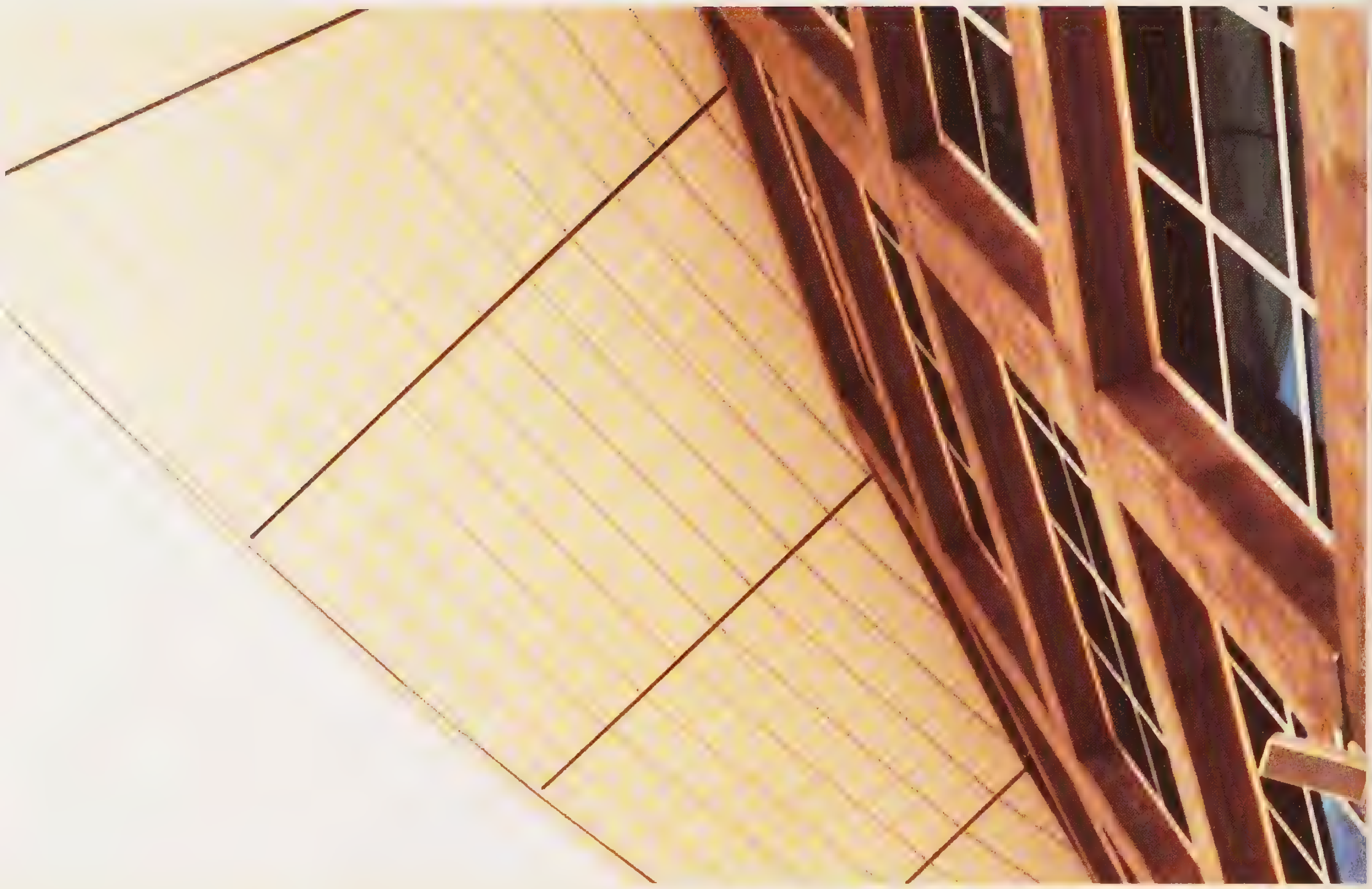
innovation means: employing **keen young minds** and **experienced talent**



innovation means: embracing **process** and **technology**

innovation means: looking systematically for **new markets** for existing products

innovation means: listening and responding to the rapidly evolving **needs of customers**



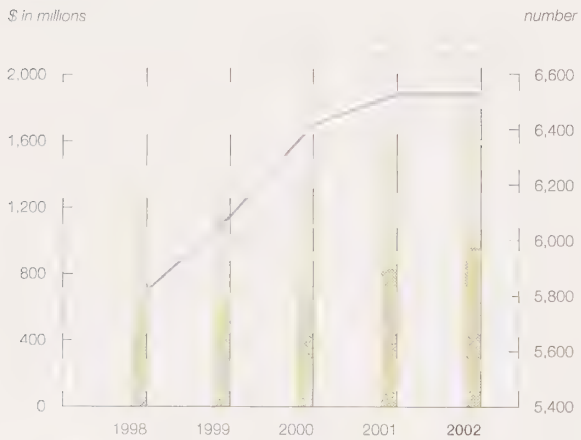
innovation means: seeking **new** and **different forms of financing**

innovation means: focussing on **rigorous marketing**

2002 Highlights

Total Financing Authorized

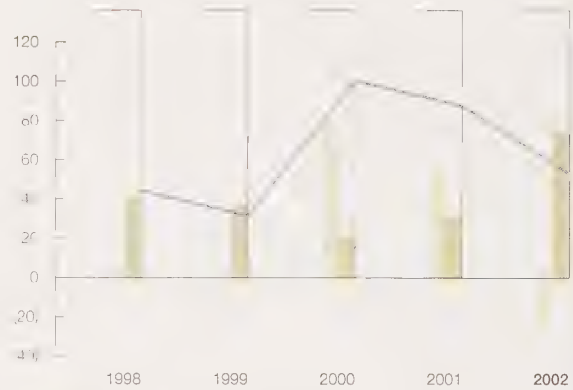
for the year ended March 31



	1998	1999	2000	2001	2002
KBIs and exporters (value)	528	582	672	834	**961**
Other sectors (value)	707	690	763	818	**887**
Total authorized (value)	1,235	1,272	1,435	1,652	**1,848**
Number	5,815	6,082	6,412	6,519	**6,519**

Net Income

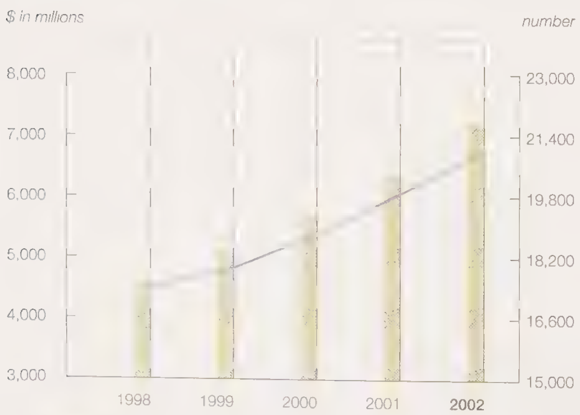
for the year ended March 31 (*$ in millions*)



	1998	1999	2000	2001	2002
Loans and Consulting Group	41.3	36.9	21.1	32.1	**74.7**
Venture Capital	4.2	(4.1)	80.0	56.2	**(21.0)**
Total net income	45.5	32.8	101.1	88.3	**53.7**

Total Financing Committed

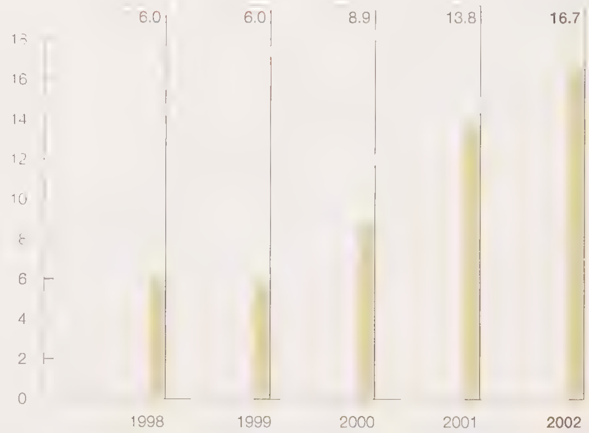
as at March 31



	1998	1999	2000	2001	2002
Amount	4,586	5,090	5,641	6,353	**7,202**
Number of customers	17,414	17,923	18,807	19,884	**21,016**

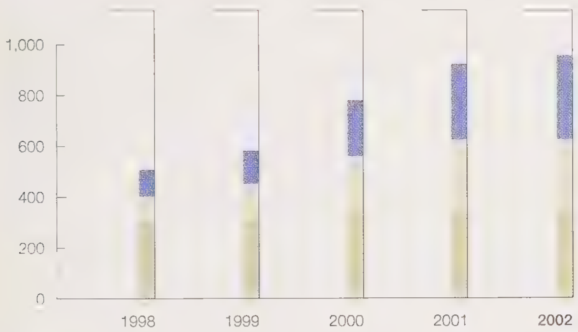
Dividend Declared

for the year ended March 31 (*$ in millions*)



Total Shareholder's Equity

as at March 31 *($ in millions)*

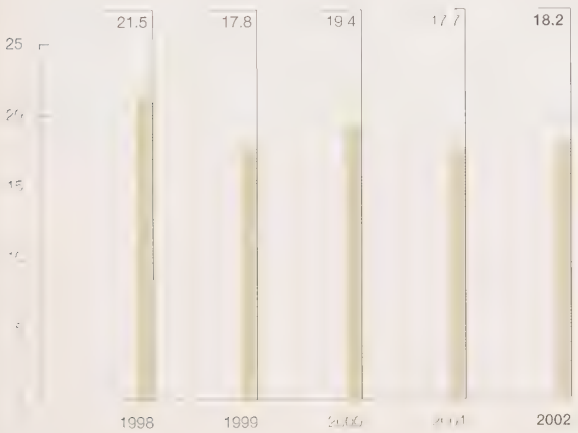


	1998	1999	2000	2001	2002
Common shares	303.4	303.4	331.2*	331.2*	**331.2***
Preferred shares	100.0	150.0	230.0	295.0	**295.0**
Retained earnings	103.7	130.4	222.6	297.1	**334.1**
Total shareholder's equity	507.1	583.8	783.8	923.3	**960.3**

* Includes $27.8 million of contributed surplus.

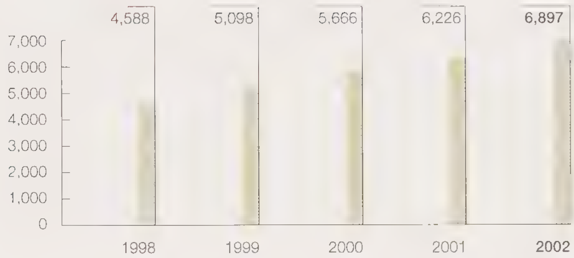
Consulting Group Revenue From Activities

for the year ended March 31 *($ in millions)*



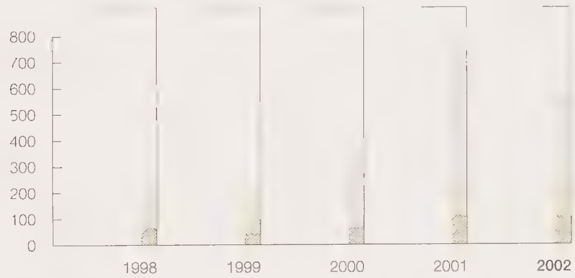
Total Assets

as at March 31 *($ in millions)*



Total Value of Venture Capital Projects Financed

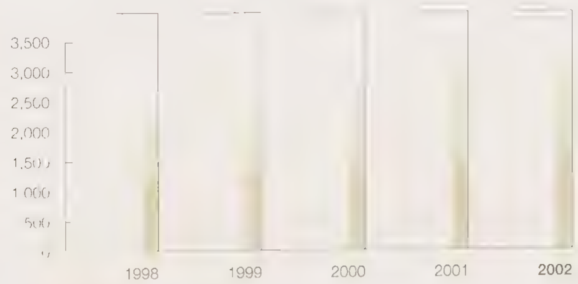
for the year ended March 31 *($ in millions)*



	1998	1999	2000	2001	2002
BDC venture capital authorized	63	42	63	114	**106**
Other sources of investment (estimated)	187	160	301	636	**472**
Total	250	202	364	750	**578**

Total Value of Lending Projects Financed

for the year ended March 31 *($ in millions)*



	1998	1999	2000	2001	2002
BDC lending authorized	1,172	1,230	1,372	1,538	**1,742**
Other sources of financing (estimated)	1,059	1,189	1,266	1,300	**1,358**
Total	2,231	2,419	2,638	2,838	**3,100**

Chairman's message

In the last year, I have had the chance to settle in as Chairman of the BDC Board and I can now more fully appreciate the important role that BDC plays in this country in making entrepreneurial dreams come true. I may be relatively new to BDC, but I am not new to banking. Based on my banking experience, I can affirm that, despite its small size in the Canadian financial landscape, BDC is extremely effective at fulfilling its mandate of serving small and medium-sized enterprises (SMEs) whose needs are not always fully met by traditional financial institutions.

The figures in this year's annual report show that BDC has grown steadily. However, growth involves more than figures. It involves providing service and taking on greater risk. It also involves serving the small loans market and showing a genuine eagerness to finance the new economy.

As proud as we are of our participation in the small loans market, we are just as proud of our continued growth in the venture capital field. In 1995, BDC committed $44 million in venture capital investments. At the end of fiscal 2002, the Bank had increased its venture capital commitment to $374 million. We now have direct investments in 145 companies, plus 85 investments through our participation in 10 other specialized funds. BDC's direct investments have produced a 26-percent return rate over 10 years—a truly outstanding performance.

An important part of the Board's role is to safeguard the Bank's resources. I am happy to report that BDC is on extremely solid financial ground. Over the last three years, the Bank has steadily increased its reserves to the point that the total now represents close to 7 percent of its loans portfolio. Even in an economic downturn, the Bank has the resources to maintain its current activity rate without turning to the Government of Canada for additional money.

The annual report shows how solid a year we had—a dividend of $16.7 million in fiscal 2002, which is $2.9 million more than in fiscal 2001. Once again, these results comply with the Treasury Board's objective that the Bank earn a return on equity at least equal to the government's long-term cost of funds.

The Board's Governance Committee has worked hard to better serve the shareholder. Refining the way the Board works has made us more effective and more responsive. We completely comply with the *Financial Administration Act* and relevant Treasury Board guidelines. The members of our outstanding Board of Directors have experience in a wide range of businesses—small, medium-sized and large. Their experience serves the Bank well. I would like to thank our Board members for their contribution, with special thanks to departing members Cindy Sprague and Ann Cheryl Denny for their work.

Personally speaking, I can tell you that BDC is a bank that grows on you. The dedication of its employees is striking. The commitment to be there for SMEs is solid. Senior managers, led by President and CEO Michel Vennat, know how to get things done. They know how to succeed.

Unlike other financial institutions, BDC has a twofold bottom line: to succeed financially while fulfilling an important public policy role. The Bank achieves high marks on both counts. It is an honour for me to serve as Chairman of the Board.

Cedric E. Ritchie
Chairman of the Board

Cedric E. Ritchie Chairman of the Board

President's

We are very proud of BDC's performance in an extremely challenging year. There was September 11. There was an economic slowdown. Despite the slowing economy, small and medium-sized enterprises (SMEs) continued to show good results and BDC continued to support their dreams. Unlike some other financial institutions, we did not reduce term lending, nor did we reduce our venture capital investments, believing that our responsibility to support our clients is even more important in a more challenging environment.

Our focus is our customers, and we are proud of our customer satisfaction record of 90 percent. We care. In the aftermath of September 11, BDC allowed all its eligible customers to postpone payments on principal for four months. One in three customers took us up on the offer.

But September 11 also reminded us of the need to adapt to an ever-changing, increasingly complex and competitive world. Innovation is not a cliché; it is a necessity. As a country, we must develop the reflex to look at things differently, to look beyond the obvious. Innovative thinking will lead us to greater efficiency and increased productivity. The Government of Canada's innovation initiative is crucial to Canada's economic well-being, and BDC will continue to play a key role whenever and wherever it can.

This spring, the Parliament of Canada confirmed our mandate and the relevance of our role as a complementary financial institution. During the parliamentary hearings, members of Parliament saw for themselves how far we've come since 1995, when the new BDC was created. Since 1995, the Bank has provided financing for 30,000 Canadian small businesses. Our loan commitment is now $6.8 billion—more than double what it was in 1995. Our venture capital commitment has reached $374 million, while our Consulting Group was involved in more than 5,000 projects.

We are confident we can do more and it's clear our shareholder supports that vision. In addition to renewing our mandate, the Government of Canada invested $65 million in additional capital to expand our operations in fiscal 2001. In fiscal 2002, the Bank returned a record high dividend of $16.7 million to the Government of Canada. Our net income in fiscal 2002 was over $53 million, which was very good, given the year. While the numbers reflect the steady growth in our financial services sector, it was a challenging year for many institutional investors in the venture capital market. Our final figures reflect that.

But apart from showing a profit, as a Crown corporation, we have a public policy role to play, and we do so with pride and distinction. We are prepared to take risks other financial institutions won't. We continue to support knowledge-based industries where brain power is the collateral. We believe in encouraging high-technology startups. We support young Canadians who are trying to make their mark in Canadian business. We support women entrepreneurs. We offer specialized Aboriginal banking.

Since over 40 percent of our lending customers are in rural Canada, we believe decision-making should not emanate only from head office. In this past year, we have continued to decentralize our decision-making. We believe credit decisions are sounder when made closer to our clients and we practise what we preach. In fiscal 2002, we implemented a number of structural changes, and I am delighted to report that local or regional managers now make almost 95 percent of our credit decisions.

Michel Vennat President and Chief Executive Officer

President's message

During the past year, I have travelled throughout the country visiting our branches and our clients. I have had the opportunity to listen to our clients enthusiastically talk about their businesses and it's heart-warming. They all have a story to tell about starting up their businesses and growing with them. The more successful firms are the innovative ones. Some of their successes are included in this annual report, and they are fine examples of what SMEs can accomplish in this country. Last January, on a visit to Cape Breton, I saw what can be accomplished. Remarkably, after the closing of the coal mines and of the steel mill in Sydney, there were almost 3,000 more Cape Bretoners working than there were the year before. SMEs came through again.

We at BDC believe much more can be done. We believe innovation is not to be preached; it is to be practised. We will continue to innovate to meet the evolving financial and consulting needs of Canadian SMEs. We will continue to offer first-class customer service with our eyes set on being efficient and flexible. Over the next five years, we want to increase our loan portfolio to more than $8 billion. Above all, we want to continue being commercially responsible without ever overlooking our public policy mandate. We will continue to do so in a productive way, as is exemplified by our 48-percent productivity ratio, the best in our industry.

A final word must go to BDC's employees. If the Bank is financially successful, and if it fulfills its public policy role as well as it does, it is clear our dedicated employees make it possible. As President of BDC, I would like to thank our employees for bringing us as far as we've come.

Michel Vennat

Michel Vennat

President and Chief Executive Officer

Global corporate objectives

The following table presents BDC's global corporate objectives for fiscal 2002 and the results achieved against the planned performance objectives. These performance measures represent the main criteria against which the Bank's performance was measured during the year. The table also presents new corporate objectives for fiscal 2003, based on a balanced scorecard approach to the following components: **clients, employees, financial sustainability and efficiency.** The planned strategic priorities and measures are also presented.

Global Corporate Objectives	Results Against Objectives
Deliver first-class customer service.	**Customer satisfaction:** **Actual: 90%** **Planned: 88%**
	– BDC's success is largely defined by the strong relationships it has with small businesses across the country. – Due to the events of September 11, the Bank offered a special postponement to eligible clients, which gave them the option of postponing principal payments. This unique and successful initiative allowed BDC clients the chance to get back on their feet in an unsettled environment. To optimize efficiency of delivery and to increase value to the customer, new loan and business development processes were also implemented during the year. – These initiatives, as well as a concentrated focus on meeting the needs of the client, led to positive results in 2002.
	Employee commitment: **Actual: 75%** **Planned: 63%**
	– The employer of choice philosophy was fully integrated throughout the Bank in fiscal 2002, to both attract and retain the right talent needed to serve the small business sector. – A modest performance objective of 63% was set for employee engagement. However, the dedication of the BDC workforce improved by 12 points over the year, reaching 75%. – The rating and improvement in overall engagement signal that the Bank is well on its way to reaching its objective of becoming one of the best companies to work for in Canada.

Global Corporate Objectives	Performance Objectives and Strategic Priorities
Create a unique and valued relationship with Canadian SMEs to support their creation and accompany their growth. – This objective underscores the importance of BDC's **clients:** Canadian SMEs. The objective involves enhancing the client relationship by increasing the value the Bank provides and supporting clients in both good and difficult times.	**Customer satisfaction: 89%** **Fiscal 2003 strategic priorities** – Increase value to clients. – Fill market gaps. – Rebalance market presence and increase reach. – Support clients in difficult times.
Foster a culture of engagement, learning and growth. – The objective recognizes that BDC **employees** are the heart and soul of the organization and are the key drivers of client satisfaction. That is why the Bank has adopted the employer of choice philosophy as a major component of its human resources framework.	**Employee commitment: 65%** **Fiscal 2003 strategic priorities** – Enhance and develop leadership. – Foster open and honest communication. – Promote self-motivated life-long learning and career development. – Recognize and support employee differentiation.

It is just this type of leadership and understanding that has compelled the Dolan family to be a customer of the Business Development Bank of Canada and its predecessors continually for the past 50 years in our various undertakings.

William Dolan
General Manager | Canada Industrial Castings Ltd.
Saint John, New Brunswick

It is reassuring to know that a bank such as yours reacts in a positive manner to major events and that it works hand in hand with its clients.

Michel Turcot
President | Les entreprises Michel Turcot Inc.
Boucherville, Quebec

Global corporate

Global Corporate Objectives	Results Against Objectives
Increase level of support to Canadian SMEs.	**Amount outstanding in loan portfolio:** Actual: $6.1 billion Planned: $5.9 billion **Percentage share of new authorizations (loans and venture capital) to KBIs and exporters:** Actual: 52% Planned: 48% – The Bank's financing addressed the needs of thousands of Canada's small businesses this year, helping them improve their innovative and productive capacity. – Despite an uncertain economic climate, BDC experienced a 13% increase in net loans, which grew the portfolio to $6.1 billion. The Bank's support continues to reach fast-growing, high-technology businesses involved in global markets. More than half of all financing in fiscal 2002 went to these innovators.
Transform the activities of BDC Consulting Group to respond to specific needs of SMEs and be financially sustainable.	**Revenue from activities:** Actual: $18.2 million Planned: $20 million – Meeting the realities of today's environment, BDC Consulting Group's role was enhanced by increased delivery of innovative service offerings: the Growth Potential Assessment, Tech-Strategy, E-Business Relevancy and E-Business Readiness. – Due to a tighter market and slowing economy, Consulting Group revenues of $18.2 million were slightly lower than planned but still in line with the previous year.
Generate a return on equity (ROE) at least equal to the government's long-term cost of funds, and sufficient profits to build up equity for future growth.	**Return on equity (ROE):** Actual: 5.7% Planned: 6.1% **Internal rate of return (IRR):** Direct investments / Total investments Actual: 26.1% / 25.6% *Planned: 25.0% / 25.0% – Historically high returns generated in fiscal 2000 and 2001 were attributable to the strong performance of the Venture Capital Group. This year, ROE is nominally lower than planned mainly because of the loss experienced in Venture Capital operations. However, the Loan operations performed well, contributing an $80.4-million profit for the year. – In fiscal 2002, the Bank revised the methodology for calculating IRR. The new method calculated the IRR of the investment portfolio, taking into consideration the cashflows excluding the operating expenses. Despite the difficult IPO environment, the Bank's 10-year average remains strong.
Maximize operating efficiency and cost effectiveness.	**Productivity ratio (operating and administrative expenses as a percentage of net interest income):** Actual: 48% Planned: 53% – During the year, the Bank implemented new loan and business development processes to optimize delivery of services and increase the value provided to clients. The efficiency and flexibility brought about by the streamlining of processes promoted local market understanding and delivered positive results in terms of customer satisfaction and productivity levels.

Internal rate of return (IRR):	Direct investments	Total investments
Actual:	26.1%	25.6%
*Planned:	25.0%	25.0%

...aims to achieve a long term IRR of 25.0% for its investments

Taking action

During their 1997 trip to Vietnam to adopt a child, Chantal Parent, Senior Advisor, Workforce Effectiveness, and her husband decided they had "both the power and the duty" to help address the disparities between North Americans and the Vietnamese people. On their return they took action, organizing toy and clothing drives for orphans, working on fundraising projects and sponsoring a Vietnamese teenager who has no home or family.

Global corporate objectives

Global Corporate Objectives	Performance Objectives and Strategic Priorities
Be profitable to grow while fulfilling public policy mandate. – This objective covers the **financial sustainability** of the Bank to ensure that it fulfills its public policy mandate while maintaining sufficient profitability to support future growth.	**Amount outstanding in loan portfolio: $6.5 billion** **Percentage share of new financing (loans and venture capital) to KBIs and exporters: 51%** **Consulting revenues: $19 million**
	Fiscal 2003 strategic priorities – Increase financing activity through solutions that support innovation and productivity. – Transform portfolio while continuing to support traditional sectors. – Develop early-stage KBIs and fast-growing SMEs through venture capital investment and subordinate financing to stimulate Canada's innovative capacity. – Support SMEs in managing and growing their businesses through consulting services.
Generate a return on equity (ROE) at least equal to the government's long-term cost of funds.	**Return on equity (ROE): 5.5%** ***Internal rate of return (IRR):** **Direct investments: 25.0%** **Total investments: 25.0%**
	Fiscal 2003 strategic priorities – Develop early-stage KBIs and fast-growing SMEs through venture capital investment and subordinate financing to stimulate Canada's innovative capacity. – Focus on investments in smaller, high-technology companies and the commercialization of university research. – Concentrate on deals valued at $250,000 to $3 million to complement the subordinate financing offered by others. – Implement new work organization and strive for improved efficiency in Entrepreneurship Centers.
Establish effective and efficient processes that support local market understanding. – This objective ensures that the Bank strives for efficiency to support local market understanding.	**Productivity ratio: 51%**
	Fiscal 2003 strategic priorities – Enhance and streamline internal processes to enable local market understanding. – Use technology efficiently to support seamless service delivery. – Enhance integrated and portfolio risk management.

Customer satisfaction level at an all-time high of 90%

High marks for service

BDC customers gave the Bank top marks in fiscal 2002, raising our customer satisfaction level to an all-time high of 90 percent. The 2-percent increase over last year's rating is an indication that we are moving in the right direction as we refine our services to better serve Canada's small businesses.

Review of

Constantly evolving to meet customer needs

The Business Development Bank of Canada is a unique financial institution providing small and medium-sized businesses with high-risk financing, loans with flexible repayment terms and affordable consulting services. BDC, as one of the few providers of long-term financial support, fulfills a vital need in the marketplace by complementing the services of commercial financial institutions.

In fiscal 2002, the Bank served more than 20,000 Canadian small businesses. With its 1,200 employees and a cross-Canada network of more than 80 branches, the Bank continues to provide services tailored to the unique needs of small businesses, providing seed, development and expansion capital to support their strategic initiatives to optimize innovation and productivity.

The Bank is always attentive to its customers' needs and regularly adapts its products and management solutions to meet changing market requirements. To do so, it keeps a close watch on industry trends. Regardless of the economic situation, BDC is always there to support small business growth.

During fiscal 2002, one of BDC's top priorities was to improve its operating efficiency so that it responds better and even faster to small business needs.

To achieve this objective, throughout the last fiscal year, BDC conducted a major review of its business processes with a view to remaining closer to customers in order to identify their needs. To make its business development, loan authorization and disbursement processes faster and more efficient, the steps have been simplified. By streamlining its administrative procedures, the Bank intends to reduce loan processing time and enhance customer satisfaction. In concrete terms, this initiative will reduce loan authorization time by 50 percent and loan disbursement time by 25 percent.

In addition, the Bank has also further decentralized its decision-making, the purpose of which was to move decisional centers closer to clients. Almost 95 percent of credit decisions are now made at the regional level and take local economic conditions into account. In fact, the Bank has a high concentration of loan portfolio activities in rural areas.

This allows the Bank to be more responsive to local needs. Work organization was also restructured based on teams of account managers responsible for business development, portfolio administration and loan writing.

Moreover, over the years, the 19 BDC Entrepreneurship Centers responded to financing needs of up to $250,000.

As a result of these constant efforts, the Bank's operating efficiency has improved, as measured by its productivity ratio (which measures operating efficiency), which has improved from 60 percent in 1995 to 48 percent in 2002.

BDC is leading the way in recognizing small business needs and meeting them with customized, flexible and innovative solutions. For example, after the tragic events of September 11, the Bank offered all its clients the option of postponing their principal payments for four months starting October 1, to give them an opportunity to get back on their feet and develop plans for the future. Thirty-five percent of BDC's eligible clients across Canada took advantage of this program.

The stuff of life

When Customer Service Officer Elizabeth Humber heard about a Halifax radio station's "Stuff a Bus" campaign, she took up the challenge. To help fill as many buses as possible with non-perishable items for community food banks, Elizabeth got her local co-workers involved, organizing a contest for participants. Thanks in large part to these efforts, the campaign resulted in the "stuffing" of seven buses.

Review of

Customer service has always been one of BDC's priorities. We examine with great interest the results of our annual customer satisfaction survey, since they are a good indicator of how effectively the Bank is meeting its customers' needs. In fiscal 2002, 90 percent of clients said they were satisfied with the Bank's service, an increase of 2 percent over the previous year.

The success of the Bank certainly lies in the quality of its workforce, and BDC employees are showing their unwavering dedication to the organization and its customers. Through a diversity of programs that recognizes the contributions of employees, BDC continues to reinforce its commitment to being an employer of choice. A survey confirmed the dedication of our employees, whose commitment to the Bank reached 75 percent.

The Bank adheres to the philosophy that trained and motivated employees who continually invest in their personal development deliver the best customer service, which is why it has invested close to $5 million in training and created the BDC Learning Centre, an online continuing education program.

The Bank continues to support the Aboriginal sector, women and young entrepreneurs. BDC also organizes and sponsors a wide range of activities for small business to support growth sectors in the Canadian economy.

To meet the needs of Aboriginal entrepreneurs, BDC has developed strategies for business startups, and financial products and services for innovative business. BDC will continue to work with schools, communities and other interested organizations in a joint effort to promote Aboriginal economic development.

The Aboriginal Banking team has been expanded to increase Aboriginal business activity nationwide in accordance with BDC's ongoing commitment to meet the needs of Aboriginal entrepreneurs. The team provides Aboriginal banking services. One member is responsible for the Aboriginal Business Development Fund (ABDF), which provides loans to help Aboriginal people achieve their dream of owning a business.

In a pilot project conducted in partnership with North Central Communities Futures Corporation, BDC offers peer lending to various First Nations communities in Northern Manitoba.

BDC Consulting Group helped the Membertou First Nation in Sydney, Nova Scotia, in its efforts to become the first indigenous government in North America to obtain ISO certification.

To promote entrepreneurship among young Aboriginal people and help them acquire business skills, in 2001, BDC launched a new business-based initiative: the E-Spirit Aboriginal Youth Business Plan Competition. The first year was a great success, with about 300 students representing 70 teams and 45 schools from across Canada participating. This competition is designed for Aboriginal students in grades 10 to 12. It focusses on a very important step in the process of starting a business: preparing a business plan.

It all adds up

BDC's 1,200 employees in more than 80 branches across the country put their skills to work in serving over 20,000 small and medium-sized Canadian businesses. Innovation and productivity were the focus of many of the solutions and services they offered to customers.

Women entrepreneurs are another of BDC's target markets. Businesses owned by women constitute a fast-growing and important segment of the small business world.

To help women entrepreneurs meet new challenges in world markets, BDC has developed programs and internal committees responsible for women's business issues.

The Bank has created Bizlink teams in its branches to offer women entrepreneurs regional networking opportunities.

The Bank also founded and sponsors the first Canadian chapter of the Women Presidents' Organization (WPO), which helps women business leaders promote their companies outside their borders.

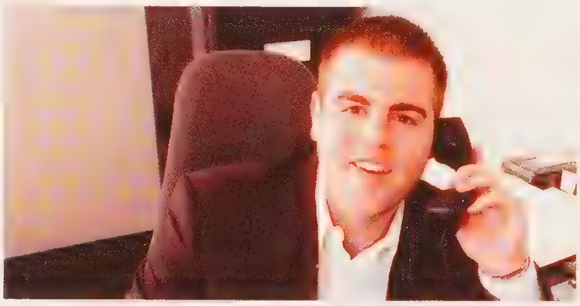
With studies showing that access to capital is still a major challenge for women entrepreneurs, BDC organized the first of a series of Financial Fitness Summits to help them increase their knowledge of financing.

In addition, BDC's Passport to Global Growth program highlights the advantages of globalization and shows entrepreneurs how to succeed in global markets.

For 23 years, BDC has been organizing Small Business Week®, which celebrates the entrepreneurial spirit in Canada by highlighting the achievements of small business. In 2001, the main theme was *The Power of Innovation: Driving Small Business Growth,* and approximately 25,000 people participated in 300 activities organized for this week.

BDC's Young Entrepreneur Awards ceremony is one of the highlights of Small Business Week®. Year after year, this ceremony pays tribute to talented young entrepreneurs under the age of 30, selected for their initiative and achievements. The award winners are matched for a full year with prominent business leaders in their province or territory under a mentor program. The mentors give advice and help their protégés sharpen their business acumen, expand their network of contacts and meet new challenges. One of the 13 winning businesses also receives the Export Achievement Award, presented by Export Development Canada to the small business that has best opened up international markets.

To help our customers cope with a changing economic environment, BDC Consulting Group has developed a business diagnostic tool to help entrepreneurs evaluate a company's vulnerability and develop an action plan. In about 20 towns across the country, the Consulting Group also organized discussion groups, where economists and experts in different aspects of the business world talked with more than 1,500 of the Bank's clients to help them put economic challenges into perspective and manage the impacts effectively.



Ryan Kalt, founder of NuMedia Internet, recipient of the 2001 Export Achievement Award.

Your support, by way of postponing principal payments during this tragic time, is one that does not go unnoticed. It is for reasons like this that Indexable has chosen to deal with your institution.

Karen Maloney
Controller | Indexable Cutting Tools of Canada Ltd.
Welland, Ontario

I wish to say how intuitive of your bank it is to recognize the possible need for assistance at this time of uncertainty and to act so quickly. We have always been impressed at the loyalty your bank demonstrates to your clients.

Judy Cornell
Co-owner | Inverness Falls Resort and War Eagle Lake Lodge
Whiteshell Provincial Park, Manitoba

With the help of Canadian accounting firms, the Consulting Group has developed a service to help entrepreneurs understand the federal government's tax credit program and obtain the research and development tax credits they qualify for.

Through BDC's virtual branch, BDC Connex®, small businesses can access a wide range of the Bank's financial products online. Thanks to faster and more effective technological tools, entrepreneurs can obtain the financing they need. BDC's Web site is also a comprehensive virtual library useful to new and more experienced entrepreneurs. It provides tools designed to help them assess their skills and the feasibility of their ideas.

To broaden its effectiveness and meet the needs of a greater number of small businesses across the country, BDC has developed a growth strategy for Alberta. It has expanded its network by opening two new branches in Calgary and Edmonton to serve this market better. This strategy also ensures that BDC's presence will reflect a truer picture of the Canadian economy.

BDC continues its long-standing major social commitment through such timely, respected initiatives as Growing With You. Through this Canada-wide community program, the Bank supports local teams and sporting events for young people. By encouraging keen young athletes in such disciplines as downhill skiing, hockey, horseback riding, swimming and soccer, BDC contributes its leadership skills as it reaches out to the community.

In addition, BDC employees give their leisure time and energy to community projects and activities.

As a complementary financial institution, BDC focusses on forging strategic alliances to better serve the small business community. To date, BDC has entered into numerous strategic alliances with partners ranging from chartered banks and venture capital investment funds to government departments and Crown corporations.

BDC has ongoing alliances with the Laurentian Bank of Canada, the National Bank of Canada and the Quebec Food Processors Association, among others.

BDC Consulting Group has developed partnerships with Canada Economic Development for Quebec Regions, the Atlantic Canada Opportunities Agency (ACOA) and the Federal Economic Development Initiative for Northern Ontario (FedNor) to support its *e-strat* program, as well as with the National Research Council of Canada to support its Tech Strategy program.

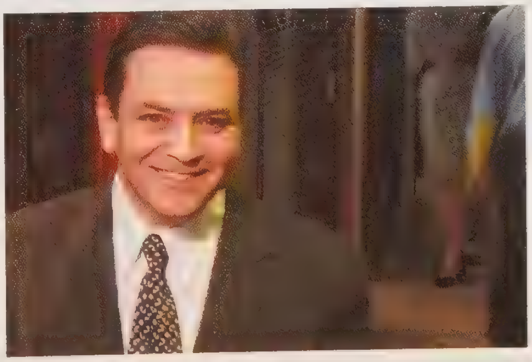
The Bank partners with Industry Canada in the Student Connection Program (SCP). This program was created to increase youth employment and provide Internet and e-commerce training at prices small businesses can afford.

In collaboration with Western Economic Diversification Canada, BDC offers financing programs for Franco-Manitoban small businesses and for those in knowledge-based industries.

BDC has a separate agreement with Farm Credit Canada to help small agri-food businesses and also partners with the ACOA, Forest Renewal BC and the National Research Council of Canada.

Rights minded

Pierre Champagne's concern for his fellow human beings reaches far beyond the borders of his Trois-Rivières community. This Branch Manager has devoted 15 years to Amnesty International, which lobbies to free prisoners of conscience throughout the world. Meeting one of the former prisoners in whose case he had been involved only strengthened his resolve. "It convinced me of the usefulness of our work," he says.



Review of Activities

Committed to helping Canadian small businesses drive growth in fiscal 2002, BDC continued to provide services tailored to the unique needs of entrepreneurs with a particular focus on productivity and innovation.

The Bank served more than 20,000 Canadian small businesses. Many of the solutions and services provided are centered on productivity and innovation because if Canadian businesses are to maintain their place in the global race and contribute to the country's prosperity, this is where they need to concentrate their efforts.

Loans

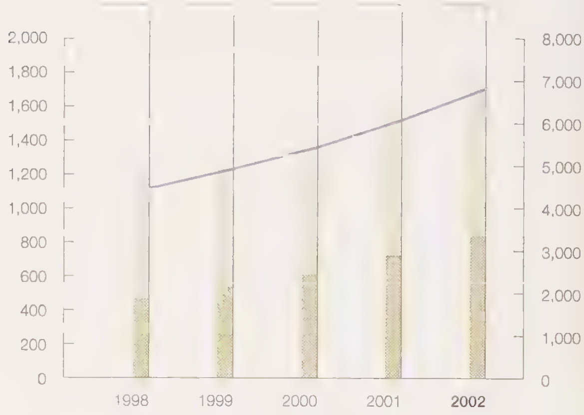
BDC loans are not of the "one size fits all" variety. The Bank's wide range of financial products is designed for every need. Entrepreneurs from the smallest micro-business to the expanding medium-sized enterprise find financing solutions that suit their requirements. BDC loans are tailored to support innovation and growth at every stage of business development.

Lending authorized reached $1,742 million in fiscal 2002, an increase of 13 percent from the previous year. Of the total increase in lending, 9 percent came from knowledge-based industries (KBIs) and the export sector, and 4 percent from other sectors. Loans authorized to KBIs and exporters increased by $135 million in fiscal 2002, from $720 million to $855 million. Total share of lending to this new economy sector was 49 percent, 2 percent higher than the previous year.

As at March 31, 2002, total lending committed had increased by more than $770 million since the previous year from $6,057 million to $6,827 million.

Total Lending Activities

($ in millions)

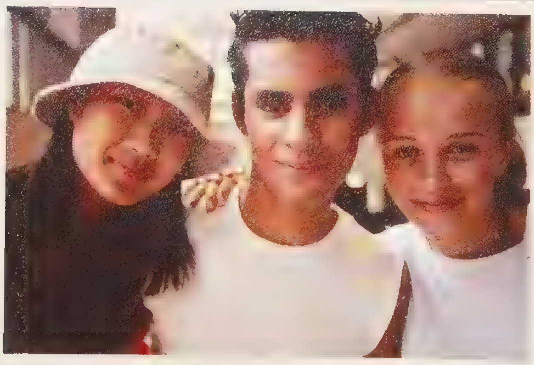


	1998	1999	2000	2001	2002
Authorized to KBIs and exporters	465	540	609	720	**855**
Authorized to other sectors	707	690	763	818	**887**
Total lending authorized	1,172	1,230	1,372	1,538	**1,742**
Total lending committed	4,461	4,933	5,446	6,057	**6,827**

Distribution of Lending Customers by Geographic Area

as at March 31, 2002

1	Atlantic Provinces	13%
2	Quebec	33%
3	Ontario	30%
4	Prairies, Northwest Territories and Nunavut	12%
5	British Columbia and Yukon	12%

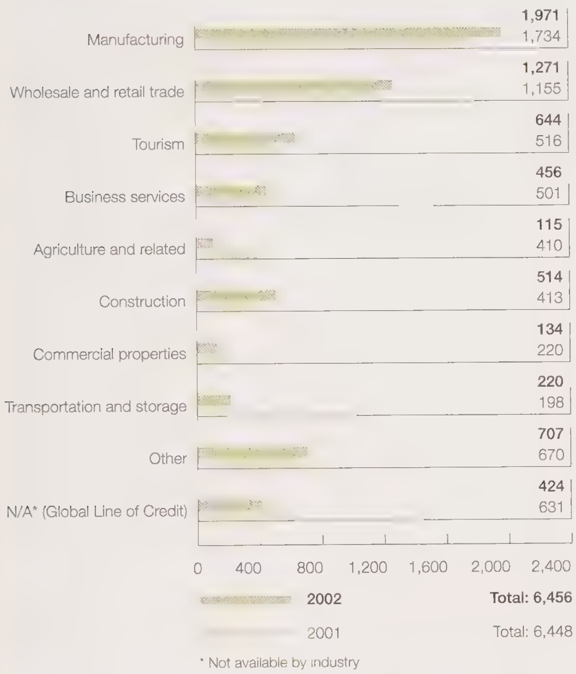


Student Business Loans

BDC has a long-standing partnership with Human Resources Development Canada (HRDC) to help students create and run a summer business through the Student Business Loans program. Financed by HRDC and administered by BDC, the program provides interest-free loans to full-time students aged 15 and over. Thanks to this program, many young people can learn the rudiments of operating a business and start training to become Canada's future entrepreneurs.

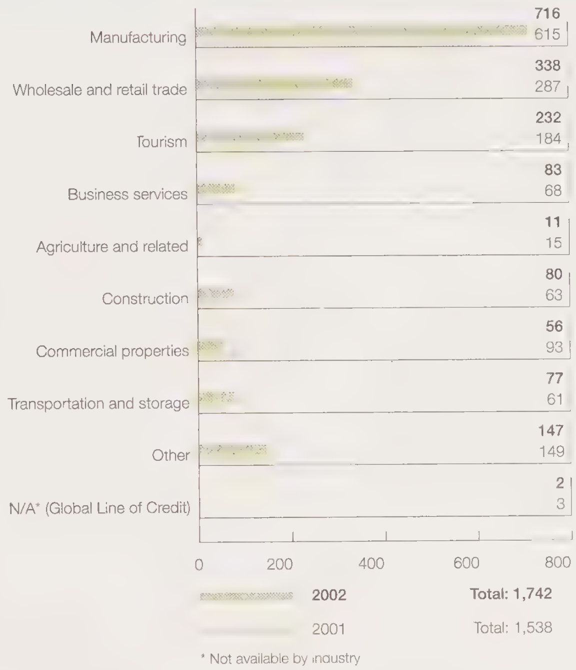
Lending Authorized — Classification by Industry

for the year ended March 31 *(in numbers)*



Lending Authorized — Classification by Industry

for the year ended March 31 *($ in millions)*



Committed to Lending Customers — Classification by Province or Territory

as at March 31

	2002 Number of customers	2002 Amount ($ in millions)	2001 Number of customers	2001 Amount ($ in millions)
Newfoundland and Labrador	**977**	**240**	916	202
Prince Edward Island	**157**	**45**	157	49
Nova Scotia	**636**	**141**	618	127
New Brunswick	**901**	**256**	902	232
Quebec	**7,037**	**2,739**	6,564	2,472
Ontario	**6,234**	**2,114**	5,624	1,742
Manitoba	**496**	**107**	502	103
Saskatchewan	**553**	**117**	576	116
Alberta	**1,334**	**412**	1,249	356
Northwest Territories and Nunavut	**75**	**29**	84	30
British Columbia	**2,360**	**604**	2,442	601
Yukon	**101**	**23**	119	27
Total	**20,861**	**6,827**	19,753	6,057

A family affair

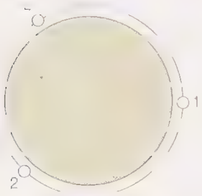
Serving meals to the homeless at Toronto's Good Shepherd Centre is a family affair for François Viau and his wife, children and in-laws. It's one of the many volunteer jobs they do through the Saint-Louis-de-France parish and other charities such as Saint-Vincent-de-Paul. "It's good, particularly for my children, to be exposed to others who are not as fortunate in life," says François, Manager, BDC Consulting Group.

Responding to the needs of smaller businesses

BDC has an unwavering commitment to small business, and this is certainly evident in the results for fiscal 2002. The volume of lending authorized increased by 13 percent to over $1.7 billion this past year. Including the Global Line of Credit, 73 percent of the Bank's lending transactions were for sums of $250,000 or less—and more than half were for $100,000 or less.

Lending Authorized — Classification by Size

for the year ended March 31, 2002



1	$100,000 or less	51%
2	Over $100,000 to $250,000	22%
3	Over $250,000 to $500,000	14%
4	Over $500,000 to $1,000,000	8%
5	Over $1,000,000	5%

To reinforce its role in helping small businesses drive productivity, the Bank stepped up efforts to promote its Productivity Plus Loan, which is designed to help sound, export-focussed manufacturing companies obtain technology-enhanced equipment. Along with 100-percent financing to purchase equipment and tooling, a small business can receive a further 25 percent for costs related to installing and assembling the equipment and training employees to use it. Loans typically range from $50,000 to $5 million. In fiscal 2002, BDC provided close to 250 such loans for a total of $85 million.

BDC introduced Innovation Financing in fiscal 2000 for entrepreneurs looking to stimulate growth, finance R&D costs, expand into new export markets or adopt quality management solutions. This product provides financing of up to $250,000 for working capital purposes. In fiscal 2002, BDC provided more than 430 such loans, a substantial increase of more than 100 loans over last year, for a total of $48 million.

Very small businesses turn to BDC Entrepreneurship Centers for financing solutions. The centers cater exclusively to the unique needs of micro-business entrepreneurs, providing loans of up to $250,000.

To enhance service to these small businesses, BDC has expanded its network of Entrepreneurship Centers. BDC's 19 centers, which focus on startup and growing companies particularly in the knowledge-based and manufacturing sectors, saw strong growth activity. Compared to the previous year, lending volume through the centers rose by 70 percent from $58 million to $99 million in fiscal 2002.

Working in tandem with the Entrepreneurship Centers, BDC Consulting Group continued to provide sound advice to young entrepreneurs and micro-business clients to help them succeed. The Group's services are highly pertinent, since most failures among startups and young businesses occur due to a lack of efficient management practices.

Budding entrepreneurs

A new BDC initiative, the E-Spirit Aboriginal Youth Business Plan Competition, gave Aboriginal youth from 45 Canadian high schools a feel for business. Working with Aboriginal business mentors, and using a computer donated to each school, 70 teams developed detailed business plan proposals. Top honours went to After Shock, a used CD and music store, proposed by Dover Bay Secondary School in Nanaimo, British Columbia.

BDC continued to contribute in the Aboriginal market through its Aboriginal Banking Unit. As at March 31, 2002, total lending committed to support Aboriginal business, at $40 million, represented an increase of over 55 percent from five years ago.

Women entrepreneurs are another BDC target market. The Bank recognizes that women-owned firms constitute a fast-growing and important segment of the small business world. In fiscal 2002, BDC made more than 1,300 lending transactions to women-owned businesses for a total amount of nearly $300 million. In fact, as at March 31, 2002, total lending committed to women entrepreneurs reached over $1.1 billion, a 12-percent increase from a year ago. The Bank will continue to work with women entrepreneurs, who are a driving force in the Canadian economy both as business owners and as employers.

As an integral part of its lending strategy, BDC provides micro-businesses financial support through products such as the Micro Business Program and the Young Entrepreneur Financing Program. As well, Student Business Loans and the Global Line of Credit® are both available online through BDC Connex®, the Bank's virtual branch.

e-business has become a priority for the Bank, particularly because the Internet can dramatically improve productivity in the small business realm. On the small business customer front, BDC held conferences with thousands of entrepreneurs to increase awareness of e-business. BDC Connex® uses the Web as a business channel and continues to be a popular choice with customers.

Subordinate financing

Subordinate financing combines features from debt financing and equity financing. This hybrid product helps businesses beyond the startup phase that need support to grow their business. These loans are fully subordinated to senior claims of other lenders.

The Bank complements the small number of lenders in this market by focussing its attention on fast-growing, innovative exporters, mainly in the manufacturing sector, whose financial needs cannot be met by traditional financing solutions. BDC concentrates more on smaller first-round financing than does the rest of the industry and provides terms and conditions based on the specific needs of the business.

Banking on women entrepreneurs

BDC moved women's business issues higher on the agenda in fiscal 2002. The Bank became a founding sponsor of the first Canadian chapter of the Women Presidents' Organization (WPO). It introduced programs designed to help women move their businesses into global markets and enhance their financial acumen. And it established teams that link women entrepreneurs and support their efforts to expand their businesses.

In addition, the Innovation Financing solution, providing loans of up to $250,000, is designed to help innovative businesses take advantage of new markets and technologies available to today's global players. This loan helps businesses adapt to ever-changing rules, develop innovation strategies and invent new products to improve their chances of success. Including innovation loans, BDC authorized more than 500 transactions, totalling $104 million in subordinate financing in fiscal 2002.

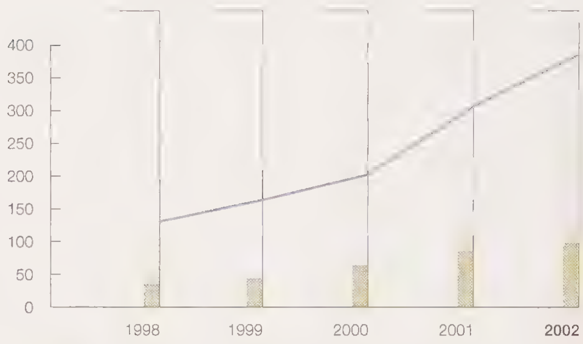
Venture capital

BDC's Venture Capital Group gets in on the ground floor by funding new ventures with the potential to become dominant players, particularly in the high-tech field. The Bank supports new ventures in sectors such as medical technologies, telecommunications, e-commerce, software, electronics and energy for funding at the very early stages of development.

The Bank's venture capital activities in fiscal 2002 represented a record year. BDC's venture capital commitment at year-end totalled $374 million, compared to $296 million in the previous year—an increase of 26 percent. To enhance clients' access to venture capital and to provide additional network expertise, BDC also partners with co-investors. In fiscal 2002, investee companies received an estimated additional $472 million from other investors, for a total of $578 million.

Venture Capital Activities

for the year ended March 31 (*$ in millions*)



	1998	1999	2000	2001	2002
Direct investments authorized	33	42	63	84	**98**
Venture funds authorized	30	0	0	30	**8**
Total authorized	63	42	63	114	**106**
Total commitment as at March 31	125	157	195	296	**374**

BDC continues to actively invest in KBIs in the early stages of growth from seed through expansion. During fiscal 2002, the Bank authorized 63 venture capital investments for a total of $106 million. As well, as at March 31, 2002, 99 percent of the Bank's venture capital commitment was directed to KBIs, largely in the biotechnology, medical, health, electronics, communications and computer-related industries.

Close to the source

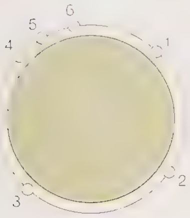
Who at BDC knows a region's entrepreneurs and their needs better than the employees who live and work there? That's why we're putting decision-making where it belongs—close to the customer. Almost 95 percent of the Bank's credit decisions are made at the local level, guaranteeing an in-depth understanding of area economic realities.

Almost 95%

of the Bank's credit decisions are made at the local level

Venture Capital Customers — Classification by Industry

as at March 31, 2002

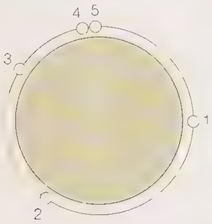


1	Biotechnology / medical / health	27%
2	Electronics	15%
3	Communications and computer-related	42%
4	Industrial	5%
5	Other industries	5%
6	Venture funds	6%

In fiscal 2002, 72 percent of BDC's venture capital investments authorized were directed to companies in the seed, startup or development stage. This reflects the Bank's commitment to financing highly promising, early-stage or exponential growth companies.

Number of Venture Capital Investments Authorized Classification by Stage of Development

for the year ended March 31, 2002



1	Startup / seed	48%
2	Development	24%
3	Expansion	24%
4	Turnaround	3%
5	Venture funds	1%

BDC Consulting Group

Through its national network of private sector consultants, BDC Consulting Group helps entrepreneurs assess, plan and implement winning and innovative solutions, especially in the areas of growth, quality, export and e-business.

BDC Consulting Group continued to meet the changing needs of Canadian small businesses in fiscal 2002 by developing and providing practical and affordable consulting services that help drive productivity and growth.

Last year, the Group with its 110 employees and its national network of some 350 independent consultants was involved in more than 5,000 projects. The Group's revenues in fiscal 2002 were $18.2 million. This represents a slight increase over last year.

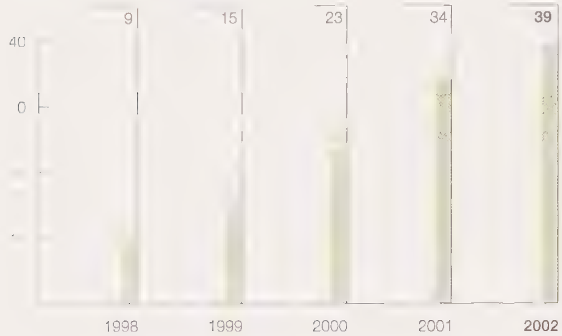
Revenues from the Group's growth line of business accounted for 48 percent of these revenues, while quality management revenues represented 27 percent, exporting 4 percent, e-business 4 percent and other areas 17 percent. Figures for fiscal 2002 also show that BDC Consulting Group's repeat business reached 39 percent, compared to 34 percent in fiscal 2001. This reflects a high level of customer satisfaction, 81 percent, with the quality and pertinence of the Group's services.

“*Your offer to postpone principal payments for the period of four months is an admirable gesture and you should be recognized for this.*”

Andrew Nielsen-Pich
President and Chief Executive Officer | Woodstone Country Inn
Galiano Island, British Columbia

Consulting Group Repeat Business

for the year ended March 31 *(percentage)*



The Group's Growth Potential Assessment, or GPA, which gives owners an overview of their business strengths, weaknesses and potential for growth in a variety of areas, including productivity-related issues, has proven to be one of the Group's most popular services.

The Group continued to provide consulting services to improve quality and ultimately help companies compete for international contracts. To date, BDC Consulting Group has provided these services to more than 1,000 companies that have become ISO certified. Adoption of the ISO 9000:2000 standard in January 2001 quickly led the Group to offer a new, related service. Complementary to that service are the Group's HACCP quality solution for the agri-food sector and the ISO 14000 solution for environmental concerns.

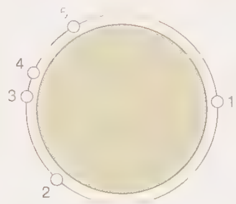
In addition to offering its New Exporter Program (NEXPRO) and market study services, the Group reinvigorated its export line by signing a new agreement with the Forum for International Trade Training (FITT). The agreement allows the Bank to use and adapt FITT's new export training program for BDC customers.

With e-business rapidly redefining the way business is conducted, BDC Consulting Group made e-business an objective in fiscal 2002. The Group introduced an *e-strat* program designed to help entrepreneurs devise sound e-strategies. In addition, it developed e-business readiness and relevance diagnostic tools on the BDC Web site, allowing entrepreneurs to do their own online e-business diagnoses.

The Group continued to respond to client needs with a new, decentralized structure that emphasizes the development of new products and services at the local level, a hallmark of the Group.

Consulting Group Revenue by Activity

for the year ended March 31, 2002



1	Growth	48%
2	Quality	27%
3	Exporting	4%
4	e-business	4%
5	Other	17%

Beyond soccer mom

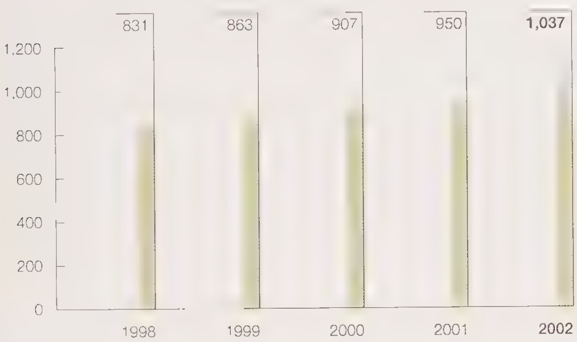
Edmonton's Consulting Group Manager Melodie Woods plays more than the role of soccer mom in her community of Ponoka. She's involved as the coach of her son's soccer team and as a hockey coach heading up a co-ed team that includes her daughter. "It's all about teaching life skills and building self-confidence in kids," she says. "I enjoy influencing these skills and attitudes through coaching."

Excellent performance in the tourism sector

Tourism continues to be the third-largest sector in BDC lending activity. In fiscal 2002, the Bank authorized loans totalling $232 million to tourism businesses. As at March 31, 2002, total commitments to this industry had reached $1,037 million, an $87-million increase from a year ago. Tourism is one of the fastest growing industries in Canada and around the world. As this industry has become more sophisticated and innovative, BDC has adapted its Tourism Investment Fund to respond to these changes.

Total Lending Committed to Tourism Industry

as at March 31 *($ in millions)*



Close to $5 million in the development and training of our personnel

On the leading edge

BDC employees possess the leading-edge skills needed to drive the growth of Canada's small businesses. And the Bank tangibly supports employee efforts to continually update these skills. In fiscal 2002, we invested close to $5 million in the development and training of our personnel.

BDC employees

BDC customers rely on the expertise and assistance of our employees to drive their innovation and growth. And employees consistently deliver, forging customer relationships that produce results. By combining commitment to customer needs with leading-edge skills, they help Canadian entrepreneurs expand their businesses and grow.

1 **Brenda Irwin** Director
Venture Capital, Vancouver and
Pierre Leduc | CEO
NeuroStream Technologies Inc.

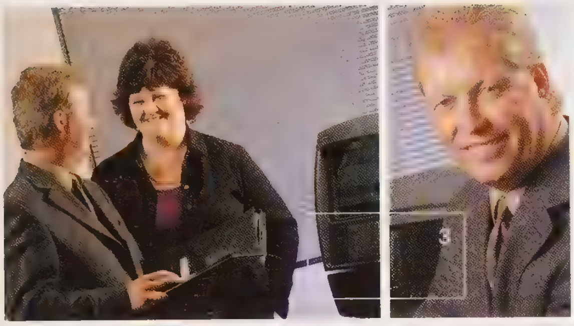
Brenda Irwin combines the strong people and organizational skills she gained as a science teacher with a business and marketing background to help startup companies move beyond academia into the world of business. One such company is NeuroStream Technologies, which has grown from an academic research program at Simon Fraser University only two years ago, to a BDC venture-financed company of which she is a board member. Brenda has assisted in refining business strategy, putting critical internal systems in place and focussing support to advance the technology for an integrated neurostimulation system.

2 **Craig Levangie** Area Branch Manager
Edmonton and
James Keirstead One of the owners of
Blue Falls Manufacturing Ltd.

If Craig Levangie and his staff at the Edmonton Branch hear that a small business is expanding, they take the opportunity to check it out. This approach led to a successful relationship between BDC and Blue Falls, the manufacturer of the high-quality Arctic Spa. "They were surprised that we called them," says Craig. An initial BDC loan enabled the business to build a new state-of-the-art plant. Two subsequent loans have helped the company expand and grow to the point where sales have more than tripled since 1999 with the spas being sold throughout Canada, the U.S. and Europe.

Giving something back

A breast cancer survivor herself, Goretty Tavares, Customer Service Officer with the Victoria Branch, is giving something back as a volunteer with the Reach to Recovery Program. She provides support through the British Columbia Breast Cancer Visitor Program, which matches breast cancer survivors with patients currently undergoing similar treatments or just recently diagnosed.



3 Jeff Hill | Manager
Subordinate Financing, London and
Kyle MacDonald | CEO
Phoenix Interactive Design Inc.

With knowledge of Phoenix Interactive Design Inc. that predated his career at BDC, Jeff Hill was able to see the company's potential for foreign expansion. "This was a smaller company dealing with very large global leaders," says Jeff of the producer of sophisticated software for ATM systems worldwide. Phoenix managers were looking for additional capital to take advantage of a timely opportunity in the market and they turned to Jeff, who helped them secure BDC financing based on his confidence in both their product and their management team.

4 Joseph Rocke | Partner
BDC Consulting Group, North York and
Mohan Markandaier | Director of Sales and Marketing
Pulse Software and Consulting Inc.

When four young Toronto entrepreneurs found the market was missing a cost-effective solution for interactive voice response and computer telephony integration, they formed their own company—Pulse Software and Consulting. They turned to Joseph Rocke of BDC Consulting Group to help develop a strategic plan. As a direct result of his assistance, and fueled by a subsequent BDC Working Capital loan, the company grew from eight employees to 25 today and is still growing. "Thousands of Canadian business owners and managers have become more competitive and more profitable via BDC consulting services," says Joseph. "We offer some of the top management consultants in Canada."

5 Rachel Allen | Account Manager
Entrepreneurship Center, Saint-Laurent with
Riad Haffar | President and Ziad Homsy | Vice-President
FluoroSeal Specialty Valves

When her clients call to say they need her, Rachel Allen gets to them as quickly as she can. FluoroSeal is a case in point. "I can get there in 10 minutes," she says. "I believe in being proactive when it comes to their evolving needs and in finding effective solutions to their problems." FluoroSeal, which manufactures specialty valves, started up in 2000 with support from BDC and has since received financing to purchase additional equipment that helped grow the business, leading to a tripling of its sales in its second year of operation.

Scouting adventurer

Richard Morris, Vice-President, Audit, Inspection and Risk Integration, is President of the Quebec Council for Scouts Canada and the proud father of two recipients of the Chief Scout Award. An essential part of his role is helping leaders throughout the province deliver programs that are relevant and interesting to today's youth. "Scouting combines education, leadership opportunities and community involvement," says Richard.

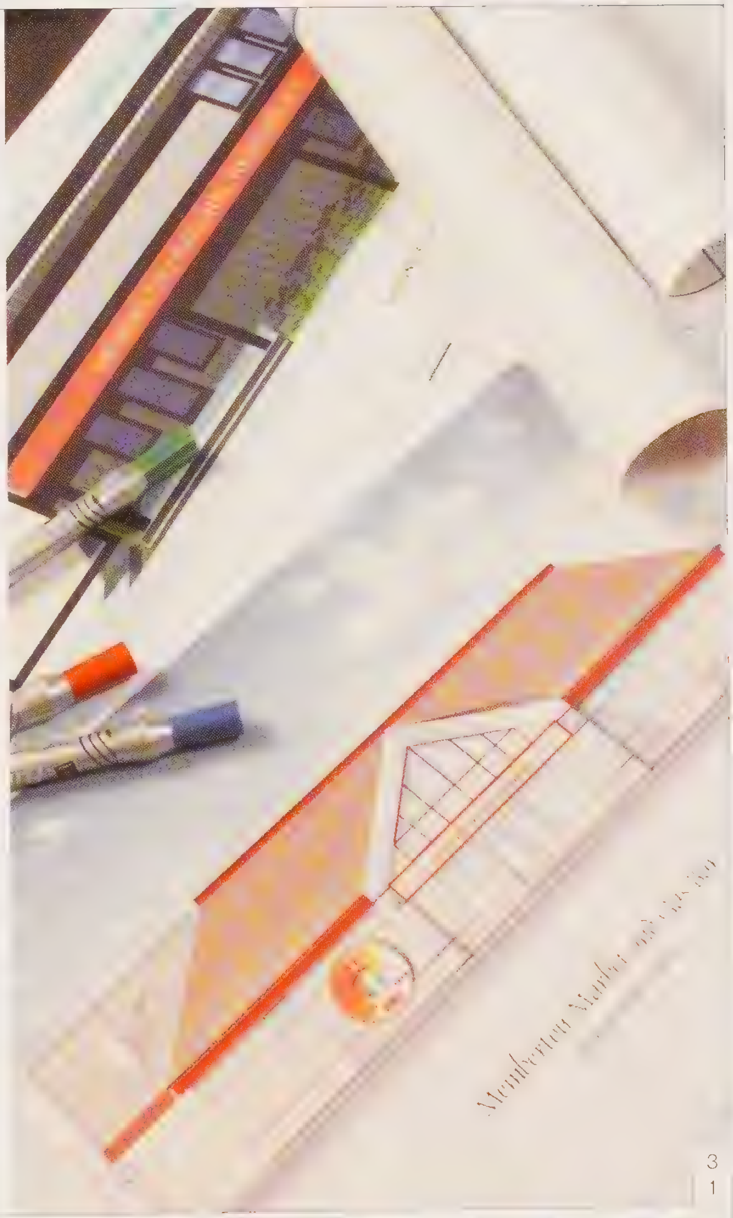
What does innovation mean to the

Atlantic Windows

Atlantic Windows is a world-class manufacturer of vinyl windows and door systems and one of the fastest growing companies in Atlantic Canada today.

"Quality drives our business, and we have never deviated from that philosophy since our inception. In the past four years, we've seen over 90-percent growth in revenues, and a large part of that is linked to our ability to combine traditional craftsmanship and technology to produce some of the best window and door products in North America. When we had to find innovative ways to automate our production line to meet skyrocketing demands, BDC came through with unique financing options. The Bank's Consulting Group has also helped us achieve ISO 9001:2000 certification, which means our company can leverage world manufacturing quality standards."

Rob Miller | CEO
Atlantic Windows | Port Elgin, New Brunswick



Membertou Band

The **Membertou Band** provides its members with programs and services related to education, social security, health, economic development, human resources and justice. It is the first indigenous government in Canada to become ISO certified.

"We're always on the lookout for business opportunities with progressively minded companies. Whether it's tourism, construction or the food service sector, our partners must share our commitment to the principles of conservation, sustainability and innovation. And now that we've achieved ISO 9001:2000 compliance with the help of BDC's Consulting Group, we've become credible players in the global market economy and a role model for good governance in indigenous nations. Today, the success of our Band is concrete proof that by rolling up your sleeves, you can overcome any obstacles and win."

Eric Christmas Director of Corporate Affairs
Membertou Band Sydney, Nova Scotia

What does innovation mean to the

Today, the Atlantic provinces are shifting from more traditional sectors such as the fisheries sector to newer high-growth areas that make up the digital economy. Throughout the region, small businesses are exploring new avenues in e-business for more remote communities. As well, New Brunswick has created a solid telecommunications infrastructure for hundreds of companies by becoming the call centre capital of North America, an industry that employs more than 10,000 people in the province.

This intense business activity combined with a rapidly growing oil and natural gas industry is driving further growth in key areas such as construction, transportation and manufacturing. Today, BDC is helping these promising small businesses prosper by offering innovative financial products and services.

Management	Branches	
Ross Miller Vice-President and District Manager Newfoundland and Labrador	Corner Brook Grand Falls-Windsor St. John's*	
Rick Floyd Vice-President and District Manager, Nova Scotia	Bridgewater Halifax*	Sydney Truro
Claude Paré Vice-President and Area Manager New Brunswick and Prince Edward Island	Bathurst (N.B.) Charlottetown (P.E.I.) Edmundston (N.B.)	Fredericton (N.B.) Moncton (N.B.)* Saint John (N.B.)

*Location of Entrepreneurship Centers

1. **Simon Larade,** Manager, BDC Consulting Group, Moncton, and Rob Miller, CEO, Atlantic Windows.

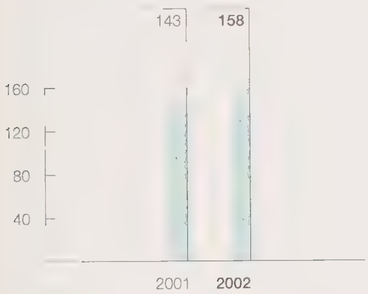
2. Quality manufacturing drives Atlantic Windows' growth.

Taking the plunge

With BDC's support, some 200 swimmers under the age of 10 came together to compete in the annual Future League Festival of Halifax. The league's participating boys and girls put in long hours in the water perfecting their competitive swimming techniques as they prepared for the big day.

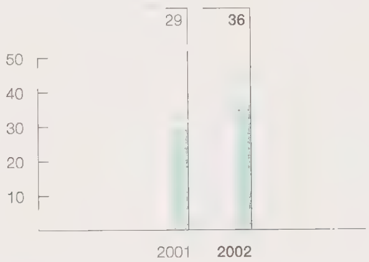
Lending Authorized

for the year ended March 31 *($ in millions)*



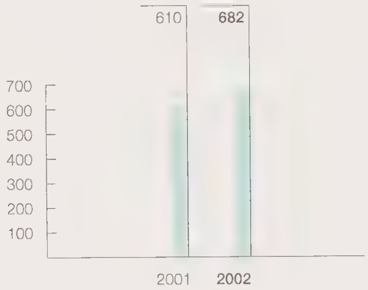
Share of Lending Authorized to KBIs and Exporters

for the year ended March 31 *(percentage)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Lending Authorized — Classification by Province

for the year ended March 31

	2002 Number	2002 Net amount ($000)	2001 Number	2001 Net amount ($000)
Newfoundland and Labrador	287	$ 65,749	250	$ 48,628
Prince Edward Island	25	4,157	31	8,480
Nova Scotia	140	31,937	166	30,896
New Brunswick	196	56,177	212	54,730
Total	648	$ 158,020	659	$ 142,734
Share of lending authorized to KBIs and exporters		36%		29%

Commitment to Lending Customers — Classification by Province

as at March 31

	2002 Number of customers	2002 Amount ($000)	2001 Number of customers	2001 Amount ($000)
Newfoundland and Labrador	977	$ 240,214	916	$ 201,943
Prince Edward Island	157	45,084	157	48,619
Nova Scotia	636	140,930	618	127,358
New Brunswick	901	255,825	902	232,111
Total	2,671	$ 682,053	2,593	$ 610,031

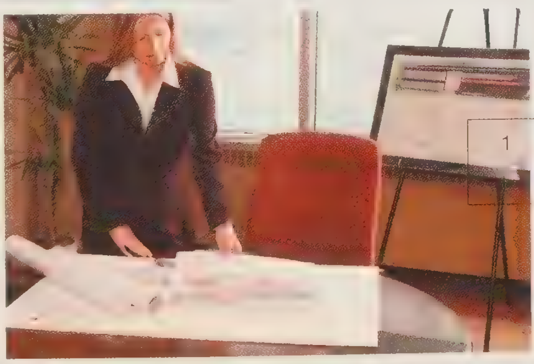
Consulting Group

for the year ended March 31

	2002	2001
Revenue ($000)	$ 1,502	$ 1,454
Projects (number)	474	549

1. Membertou Band is a progressive indigenous government.

2. **Holly Boston,** Manager, BDC Consulting Group, Halifax, and Eric Christmas, Director of Corporate Affairs, Membertou Band.



What does innovation mean to

Groupe Chlorophylle/L'Aventurier/ Guide Aventure

Groupe Chlorophylle/L'Aventurier/Guide Aventure designs, manufactures and sells one of Canada's most popular high-performance clothing and gear lines. The company also markets adventure travel and training.

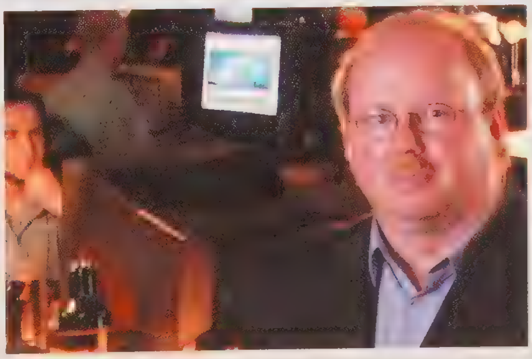
"With subordinate financing from BDC, we were able to expand our chain of stores and capitalize on the exponential growth in the outdoor clothing segment. And now that the Bank is on board, we're also establishing footholds in the Japanese market, which represents millions of possible customers for us. Certainly what attracted Asian interest in our business was our meticulous attention to both design and functionality. That's where we've always innovated and that's how we've stayed ahead in the race. We're now very confident and ready to further expand into the U.S. and Europe."

Gilles Couët President
Groupe Chlorophylle/L'Aventurier/Guide Aventure | Chicoutimi, Quebec

Strategy First Inc.

Strategy First Inc. is a leading Canadian developer and worldwide publisher of entertainment software. Today, the company ranks sixth in the North American gaming market.

"BDC's venture capital has enabled Strategy First to grow into the company that it is today. Although our industry is fiercely competitive, the Bank has always recognized our potential, helping us break new ground and become a leader in the worldwide market. With our experience as an independent developer, we have built a strong third-party publishing division that has made us the gateway for European companies looking to market their games in North America. This new business model has had a tremendous effect on our overall revenue. Over 1,000-percent growth in the past two years is a clear indication that Strategy First's future is bright!"



Don McFatridge | President
Strategy First Inc. Montreal, Quebec

What does innovation mean to

Quebec's rapidly growing interactive entertainment industry, valued at $16 billion on a global scale, is making headlines. With its talented and creative workforce, Quebec is home to hundreds of small businesses that develop and sell "edu-tainment" products, console games and unique interactive software.

Another bustling business in the news is the biophamaceutical/ biotechnology sector, which is driving a surge of medical breakthroughs in diagnostics, preventive medicine and therapeutics. To help these innovative entrepreneurs excel, BDC provides sound strategic counselling and customized financing that drive growth and productivity.

Management	Branches	
Alain Gilbert Vice-President and Area Manager, Eastern Quebec	Chicoutimi Quebec*	Rimouski Trois-Rivières
Guy Gervais Vice-President and Area Manager, Southern Quebec	Drummondville Granby	Longueuil* Sherbrooke
Gilles Lapierre Vice-President and Area Manager, Laval	Laval* Saint-Jérôme	Thérèse-de-Blainville
Michel Crête Vice-President and Area Manager, Montreal	De Maisonneuve Place Ville Marie*	Saint-Léonard
Patrice Bernard Vice-President and Area Manager, Western Quebec	Hull Pointe-Claire	Rouyn-Noranda Saint-Laurent*

*Location of Entrepreneurship Centers

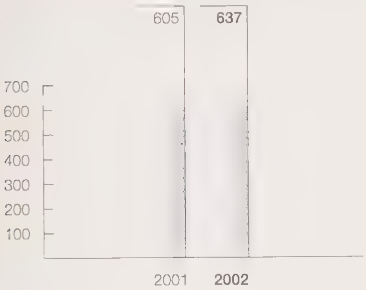
1. **Richard Belley,** Senior Manager, Loans, Chicoutimi, and Gilles Couët, President, Groupe Chlorophylle/ L'Aventurier/ Guide Aventure.

2. Fabric and colour make up the Chlorophylle brand.

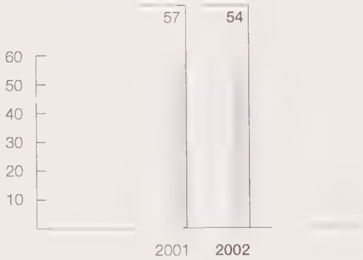
Spirit on ice

It takes spirit and grit to make it to the hockey finals and Quebec's Lakeshore Novice A Tigers demonstrated that's just what they have when they finished first in the A division of the 19th Buckingham Provincial Novice Tournament in December 2001. BDC proudly supported the team with a cash sponsorship and T-shirts, caps and badges.

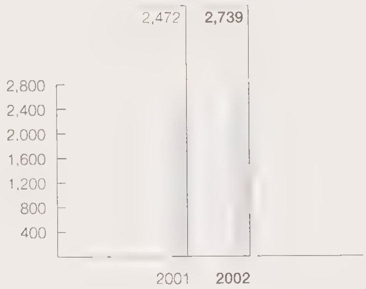
Lending Authorized
for the year ended March 31 *($ in millions)*



Share of Lending Authorized to KBIs and Exporters
for the year ended March 31 *(percentage)*



Commitment to Lending Customers
as at March 31 *($ in millions)*



Lending Authorized

for the year ended March 31

	2002 Number	2002 Net amount ($000)	2001 Number	2001 Net amount ($000)
Quebec	2,177	$ 636,891	2,083	$ 605,309
Share of lending authorized to KBIs and exporters		54%		57%

Commitment to Lending Customers

as at March 31

	2002 Number of customers	2002 Amount ($000)	2001 Number of customers	2001 Amount ($000)
Quebec	7,037	$ 2,739,258	6,564	$ 2,472,170

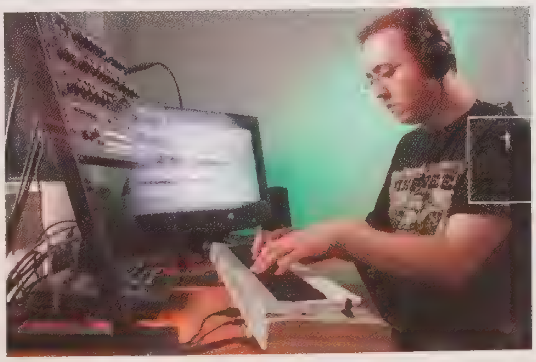
Consulting Group

for the year ended March 31

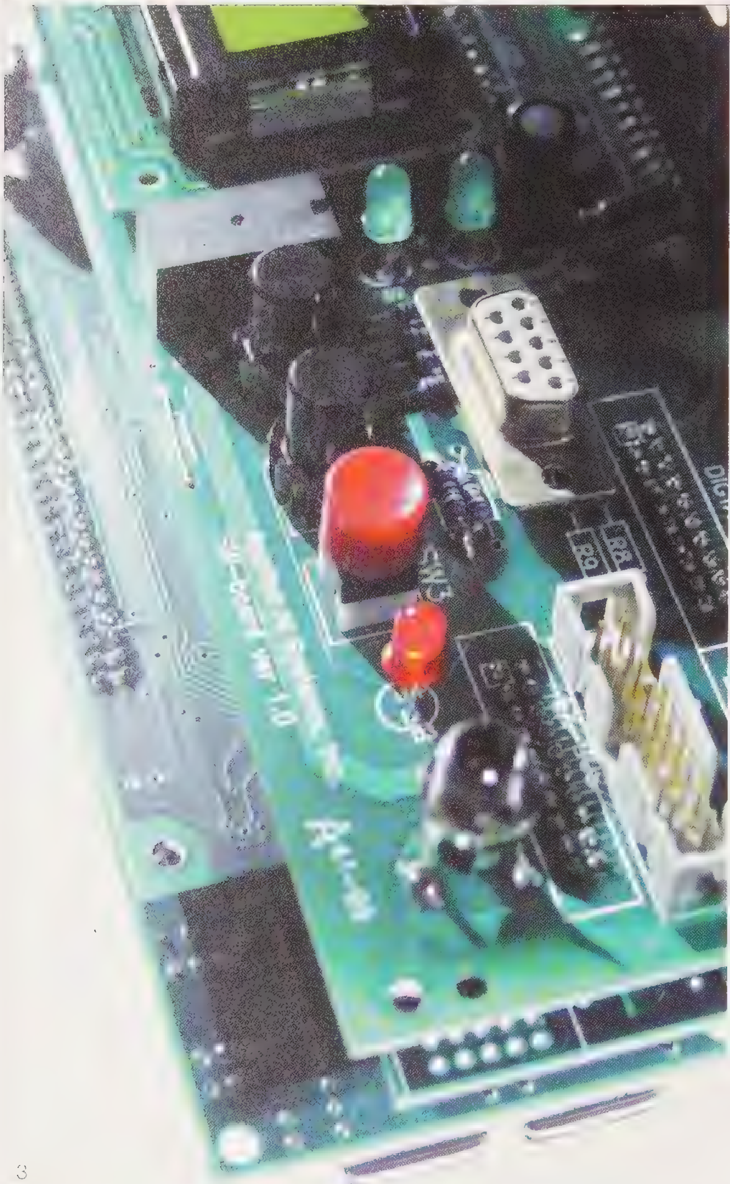
	2002	2001
Revenue ($000)	$ 8,477	$ 7,619
Projects (number)	2,168	2,468

1. Strategy First creates innovative games.

2. **Jacques Dénommée,** Director, Venture Capital, Montreal, and Don McFatridge, President, Strategy First Inc.



What does innovation mean to



Applied AI Synergy Inc.

Applied AI Synergy Inc. is the longest standing artificial intelligence (AI) company in Canada specializing in intelligent mobile robots used in real-world applications and research.

"R&D is the focus of what we do, whether it's developing an intelligent camera to detect landslides and avalanches, or a robot that can deliver heavy objects in a farmer's field without a human driver. Today, we're exporting more than 85 percent of our technology to Japan, where the market for research encompasses literally hundreds of universities, national institutions and corporate laboratories. Our steady growth also meant that we had to find new space at the height of the high-tech frenzy where, in our case, rents were increasing by nearly 100 percent. That's when we turned to BDC to help us finance a building that was truly customized to our R&D needs. In the end, the Bank has really understood that our business has enormous long-term potential, not just for us, but for Canada."

Dr. Takashi Gomi | President
Applied AI Synergy Inc. | Carp, Ontario

RLP Machine & Steel Fabrication Inc.

RLP Machine & Steel Fabrication Inc. prides itself in a strong diversification strategy—building everything from lawn mower parts to steel tanks used in the energy industry.

"Our strength is our people, and that's not a cliché in our case. In four years, we've quadrupled our growth and the size of our staff, and that has definitely meant paying close attention to human resources management. In fact, a large part of our success is rooted in constant training of both experienced and young employees who help us improve quality and productivity in the plant. BDC too has helped us develop new sectors of business through a Productivity Plus Loan, which was used to purchase computer-based equipment to build steel tanks for the energy sector. By exploring new business opportunities like these, our company has been able to ride changing cycles in the industry."

Stephen Symes | President
RLP Machine & Steel Fabrication Inc. Timmins, Ontario

What does innovation mean to

Whether it's robotics or fibre optics, Ontario is at the forefront of discovery. The province is still Canada's manufacturing heartland, but today the regional economy has shifted to more research and development-intensive business with the largest concentration of R&D spending focussed on telecommunications and computer services.

Add to that a powerful synergy among the province's universities and the public and private sectors that has created a rigorous R&D network to develop the next generation of high technology. With a focus on supporting knowledge-based industries, BDC recognizes the long-term potential of companies that turn brilliant ideas into reality.

Management	Branches	
Pauline Rochefort Vice-President and Area Manager Eastern and Northern Ontario	Kingston Ottawa*	
Kevin Dane Vice-President and District Manager, Northern Ontario	Kenora North Bay Sault Ste. Marie	Sudbury Thunder Bay Timmins
Ronald Panetta Vice-President and Area Manager, Southern Ontario	Kitchener London*	Stratford Windsor
Michel Leduc Vice-President and Area Manager, Toronto	Barrie North York	Toronto* Toronto North
Brendan Cunneen Vice-President and Area Manager, Toronto East	Markham Oshawa	Peterborough Scarborough*
André Dusablon Vice-President and Area Manager, Mississauga	Brampton Halton Hamilton	Mississauga* St. Catharines

*Location of Entrepreneurship Centers

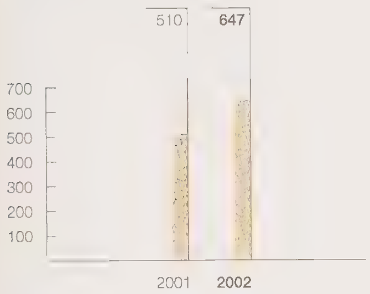
1. **Pierre Lauzon,** Senior Manager, Loans, Ottawa, and Dr. Takashi Gomi, President, Applied AI Synergy Inc.

2. Applied AI Synergy conducts advanced robotics research.

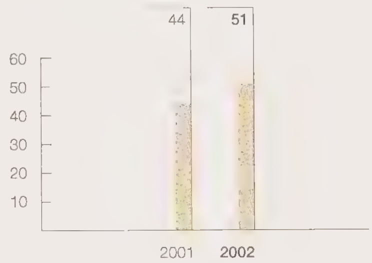
A leg up

Young equestrian competitors from Eastern Ontario and Western Quebec get a "leg up" from BDC's Ottawa branch, which sponsors them in their preparation for three very popular events. Organizers from the Nepean National Equestrian Park were pleased to thank BDC for its contribution "on behalf of the youth who work so hard to fulfill their competitive dreams and the families and volunteers who support them."

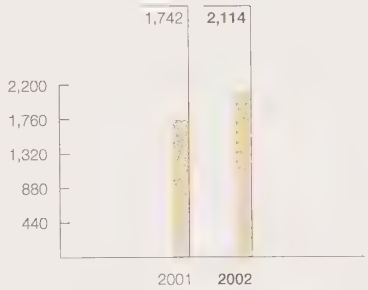
Lending Authorized
for the year ended March 31 *($ in millions)*



Share of Lending Authorized to KBIs and Exporters
for the year ended March 31 *(percentage)*



Commitment to Lending Customers
as at March 31 *($ in millions)*



Lending Authorized

for the year ended March 31

	2002 Number	2002 Net amount ($000)	2001 Number	2001 Net amount ($000)
Ontario	2,067	$ 646,826	1,822	$ 509,626
Share of lending authorized to KBIs and exporters		51%		44%

Commitment to Lending Customers

as at March 31

	2002 Number of customers	2002 Amount ($000)	2001 Number of customers	2001 Amount ($000)
Ontario	6,234	$ 2,114,012	5,624	$ 1,742,151

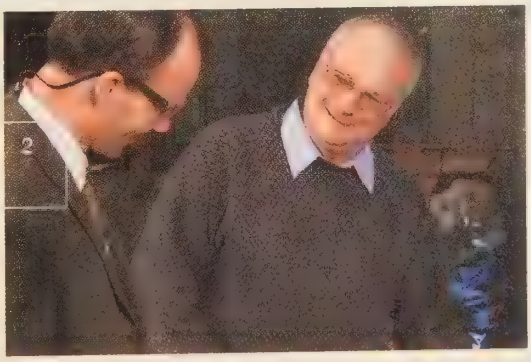
Consulting Group

for the year ended March 31

	2002	2001
Revenue ($000)	$ 5,526	$ 5,562
Projects (number)	1,704	1,513

1. RLP Machine & Steel Fabrication takes pride in productivity.

2. **Tim Whalen,** Branch Manager, Sudbury, and Stephen Symes, President, RLP Machine & Steel Fabrication Inc.



What does innovation mean to the

Hilary Druxman Inc.

Designed for innovative financing

Hilary Druxman Inc. is one of the fastest growing jewellery design companies in Canada and has earned a private label at Neiman Marcus, Barney's New York and Saks Fifth Avenue.

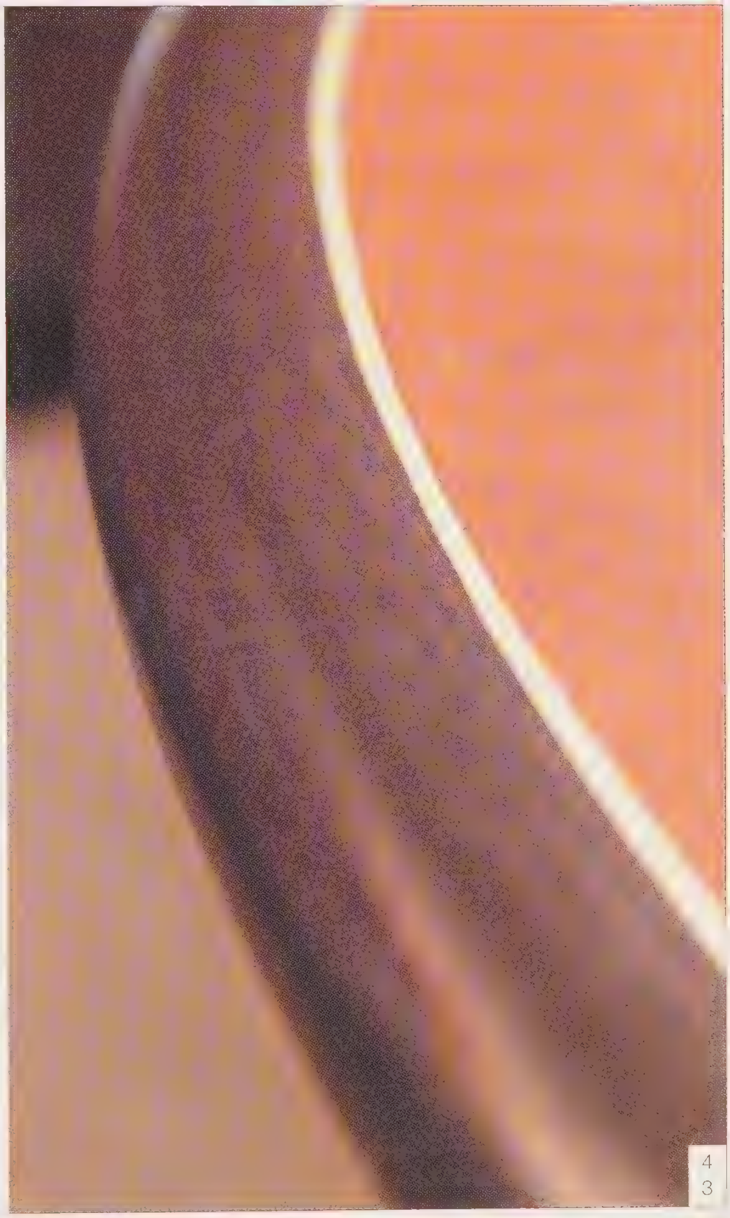
"Getting our feet into the international market was the best thing we ever did for our company, and BDC definitely played a key role in helping us grow revenues by 60 percent in five years. In the jewellery design business, you can save considerable costs by buying raw materials in bulk and the Bank's term loans have enabled us to do just that. As well, we were able to reduce our delivery time from eight weeks to two weeks by building a finished product inventory using BDC Innovation Financing. Using creative financing strategies can make all the difference for your bottom line."

Hilary Druxman | President
Hilary Druxman Inc. | Winnipeg, Manitoba

RBK Millwork Ltd.

RBK Millwork Ltd. is a premier supplier of architectural millwork and store fixture solutions. The company has made its mark in the industry with customer service excellence and quality workmanship.

"We see millwork as an art form here and it takes exceptionally skilled cabinet makers and technology to live up to that promise. That's precisely why we relied on a BDC Productivity Plus Loan to upgrade our design and production equipment and streamline what was once a very labour-intensive process. At the same time, we were able to bring our employees' skills in line with our company's evolution, providing training in cabinet-making, drafting and blueprint reading. Today, by working smarter and becoming more efficient, we can provide unbeatable quality and value to our clients and also realize a healthy return on investment."



Randy Kuzyk President
RBK Millwork Ltd. Edmonton, Alberta

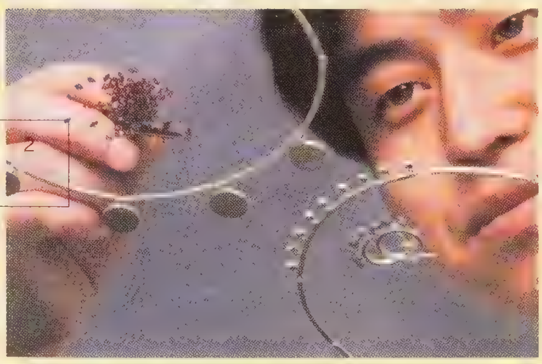
What does innovation mean to the

Today, 70 percent of Canadian exporters are small businesses with sales of under $1 million, and many small businesses in the Prairies, Northwest Territories and Nunavut region are definitely a part of the growing export trend. A low population and small domestic markets make this part of the country a natural for exporting beyond Canada's borders.

Combine that with a burgeoning e-business industry in provinces such as Alberta, which gives small businesses instant access to the world market. As entrepreneurs here strive for growth, BDC is helping them become international players.

Management	Branches	
Wellington Holbrook Vice-President and Area Manager Manitoba and Saskatchewan	Brandon (Man.) Regina (Sask.) Saskatoon (Sask.)	Winnipeg (Man.)*
Laura Didyk Vice-President and Area Manager, Southern Alberta	Calgary (Alta.) Calgary North (Alta.)*	Cranbrook (B.C.) Lethbridge (Alta.)
Terry Quinn Vice-President and Area Manager Northern Alberta and Northwest Territories	Edmonton (Alta.)* Fort St. John (B.C.) Grande Prairie (Alta.)	Red Deer (Alta.) Yellowknife (N.W.T.)

*Location of Entrepreneurship Centers



1. **Susan Didyk,** Senior Manager, Loans, Winnipeg, and Hilary Druxman, President, Hilary Druxman Inc.

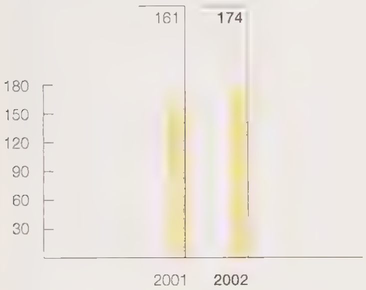
2. Hilary Druxman Inc. focusses on meticulous design work.

On the ball

The Manitoba Selects Soccer Team proved they were on the ball when they represented Manitoba at the National Championship Soccer Games held July 25–28 in Prince George, B.C. Team members—girls under 15 from a variety of soccer clubs across the city of Winnipeg—received financial support as well as BDC sports bags, backpacks, T-shirts and water bottles from Winnipeg's Entrepreneurship Center.

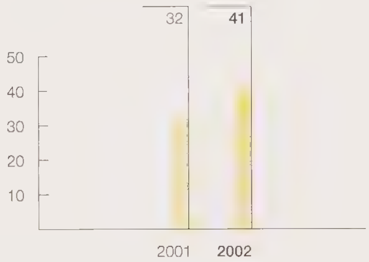
Lending Authorized

for the year ended March 31 *($ in millions)*



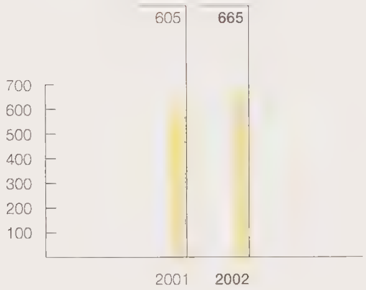
Share of Lending Authorized to KBIs and Exporters

for the year ended March 31 *(percentage)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Lending Authorized — Classification by Province and Territory

for the year ended March 31

	2002 Number	2002 Net amount ($000)	2001 Number	2001 Net amount ($000)
Manitoba	185	$ 26,224	210	$ 18,229
Saskatchewan	169	25,873	349	26,792
Alberta	512	116,773	634	110,231
Northwest Territories and Nunavut	18	4,951	15	6,303
Total	884	$ 173,821	1,208	$ 161,555
Share of lending authorized to KBIs and exporters		41%		32%

Commitment to Lending Customers — Classification by Province and Territory

as at March 31

	2002 Number of customers	2002 Amount ($000)	2001 Number of customers	2001 Amount ($000)
Manitoba	496	$ 107,406	502	$ 103,330
Saskatchewan	553	117,088	576	116,331
Alberta	1,334	411,446	1,249	355,827
Northwest Territories and Nunavut	75	29,416	84	29,876
Total	2,458	$ 665,356	2,411	$ 605,364

Consulting Group

for the year ended March 31

	2002	2001
Revenue ($000)	$ 1,664	$ 1,725
Projects (number)	400	474

1. Streamlined production at RBK Millwork Ltd.

2. **Paul Schnierer,** Senior Manager, Loans, Edmonton, and Randy Kuzyk, President, RBK Millwork Ltd.

What does innovation mean to

New Society Publishers

New Society Publishers is a progressive company that publishes books that contribute to building an ecologically sustainable and just society.

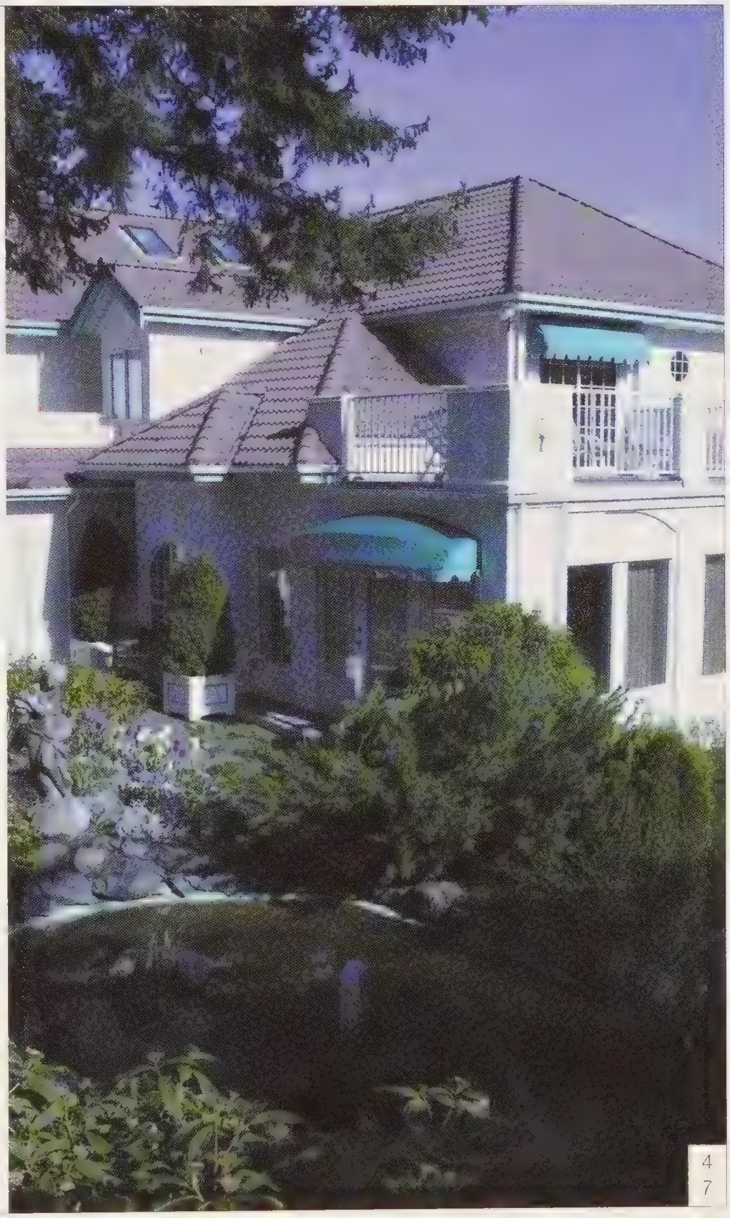
"Whether the subject is leadership or First Nations issues, we've set a precedent in the market by selling books that ultimately build a better world. So naturally, what's important to us is doing business in a way that walks the talk. For example, we're committed to printing on 100-percent post-consumer recycled paper and have encouraged other companies to innovate in printing. With the help of BDC's Cultural Industry Development Fund, we were able to revitalize our company sales through direct marketing initiatives and begin selling books on the Web. In fact, we were one of the first publishing companies to do this. Today, as well, 80 percent of our sales are exported and we're exceeding our revenue goals considerably."

Chris Plant . President
New Society Publishers | Gabriola Island, British Columbia

The Aerie Resort

The Aerie Resort is a high-end luxury resort and spa, a member of the prestigious Relais & Chateaux association and has been rated by Condé Nast as one of the top 100 hotels in the world.

"Travellers today are looking for a total experience where they are treated to a sanctuary for body and soul. So from the outset, I think BDC shared our confidence that we had designed an innovative hotel concept that would attract year-round guests. Our strategy was to not only offer beautifully appointed rooms, but to provide a culinary experience, taking full advantage of locally grown products from seafood to game and the province's renowned wines. Guests can also enjoy full farm tours and adventure tours in the area. As we've grown over the past years, the Bank has helped us finance building expansions that ultimately makes us a better hotel."



Markus Griesser General Manager
The Aerie Resort Malahat, British Columbia

What does innovation mean to

Small businesses in British Columbia and Yukon are actively developing new business opportunities such as eco-tourism, which injects more than $30 million into local economies annually. Travellers seeking authentic adventure and cultural experiences are definitely attracted by the region's beautiful wilderness, diverse wildlife and First Nations heritage.

And as a natural extension of this growth, Yukon's health, education and government services sector continues to be a mainstay of the region's economy, making up 80 percent of all new jobs in the region. As the British Columbia and Yukon economies make a major shift from natural resources to other promising industries, BDC is there to lend a hand.

Management	Branches	
Steve Zink Vice-President and Area Manager B.C. North and Interior	Kelowna (B.C.)* Kamloops (B.C.) Prince George (B.C.)	Terrace (B.C.) Whitehorse (Y.T.) Williams Lake (B.C.)
Brian Moist Vice-President and Area Manager, Vancouver	Campbell River Langley Nanaimo North Vancouver	Surrey* Vancouver* Victoria

*Location of Entrepreneurship Centers

2

1. Chris Plant, President, New Society Publishers, and **David Craig,** Account Manager, Victoria.

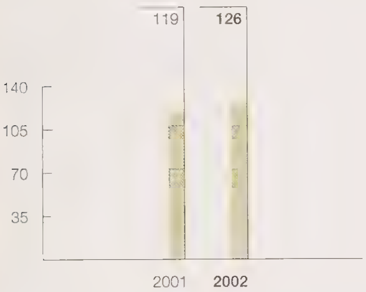
2. Teamwork counts at New Society Publishers.

Racing prowess

Vancouver Island's Mt. Washington Ski Club racers, aged 11 and 12, proudly displayed their BDC hats, water bottles and banner as they took part in the 2001–2002 season. And, of course, they also displayed their impressive skills on the slopes. These members of the BDC-sponsored K1 program have moved from the fundamental phase of skill development to the more structured Train to Train phase.

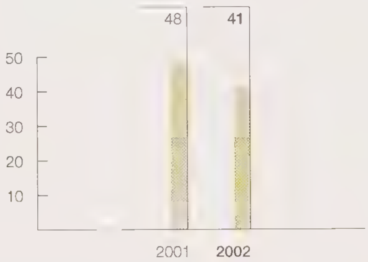
Lending Authorized

for the year ended March 31 *($ in millions)*



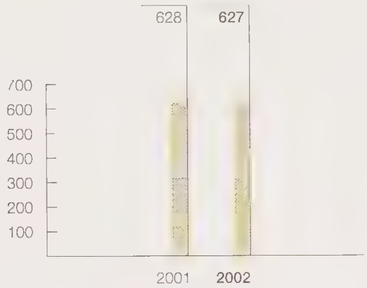
Share of Lending Authorized to KBIs and Exporters

for the year ended March 31 *(percentage)*



Commitment to Lending Customers

as at March 31 *($ in millions)*



Lending Authorized — Classification by Province and Territory

for the year ended March 31

	2002 Number	2002 Net amount ($000)	2001 Number	2001 Net amount ($000)
British Columbia	661	$ 123,297	659	$ 116,853
Yukon	19	3,233	17	1,837
Total	680	$ 126,530	676	$ 118,690
Share of lending authorized to KBIs and exporters		41%		48%

Commitment to Lending Customers — Classification by Province and Territory

as at March 31

	2002 Number of customers	2002 Amount ($000)	2001 Number of customers	2001 Amount ($000)
British Columbia	2,360	$ 603,853	2,442	$ 601,172
Yukon	101	22,957	119	26,397
Total	2,461	$ 626,810	2,561	$ 627,569

Consulting Group

for the year ended March 31

	2002	2001
Revenue ($000)	$ 1,020	$ 1,364
Projects (number)	460	656

1. The Aerie Resort serves up some local cuisine.

2. **Mary-Ellen Echle,** Senior Manager, Loans, Victoria, and Markus Griesser, General Manager, The Aerie Resort.

Corporate governance

To BDC's Board of Directors, corporate governance is a matter of utmost importance. The Board is firmly committed to effective practices that ensure that the Bank operates according to solid business principles and all applicable legislation, while maintaining its role as an instrument of public policy in the Canadian economy. Board members, who represent the geographic and sector diversity of BDC customers and are well aware of their needs, believe that an efficient corporate governance regime that emphasizes openness and full accountability is key to maintaining the Bank's position as a complementary financial institution dedicated to small business.

In fulfilling their role of directing and managing BDC's business, the Board and its committees monitor the effectiveness of the Bank's corporate governance practices and approve any modifications. They approve the strategic orientation and the Corporate Plan, monitor the Bank's performance, authorize compensation policies, and ensure business risks are properly identified and appropriate risk management systems are implemented. They also ensure that proper financial reporting, internal control and audit systems are implemented.

The Bank's code of conduct and commitment to high legal, ethical and moral standards are reviewed by the members of the Board, who obtain assurance from management that the Bank has adhered to the standards.

To continue to fulfill their mandate efficiently, the directors held their annual strategy meeting in fiscal 2002, during which they not only reviewed the Bank's strategic priorities and all factors that have a significant impact on its economic environment, but also provided constructive feedback to management.

The Board subsequently undertook strict monitoring of goal achievement by periodically examining quarterly performance, as well as operational results in each area of the Bank's activities. Directors compared present performance levels to those of previous fiscal years and to those set out in the Corporate Plan.

Although the Bank has been managing risk effectively for many years, the Board and management have continued to emphasize integrated risk management by ensuring implementation of an effective, ongoing process to identify, measure and proactively manage all present and potential risks. This disciplined approach to risk management has enabled the Bank to increase the support it provides to Canadian small businesses in response to their ever-increasing needs.

Finally, the annual performance review of the Board of Directors and its committees, which is an important element of the governance process, was completed.

The Board met 10 times in fiscal 2002. Three of these meetings were held in different locations across Canada, providing Board members with the opportunity to meet with local clients, stakeholders and people from the community. These meetings have sparked a positive reaction and helped to raise BDC's profile across the country.

The Board of Directors delegates part of its work to five committees. These five committees review, monitor and supervise matters referred to them by the Board and make recommendations. All the committees are required to report regularly to the Board. A brief description of their main responsibilities and achievements for fiscal 2002 follows.

Executive Committee The Executive Committee, which handles important matters that come up between Board meetings, met 18 times in fiscal 2002. It approved loans and investments that exceeded the powers delegated to management and exercised other powers determined by the Board.

Chairperson: Cedric E. Ritchie

Members: Terry B. Grieve, V. Peter Harder, Peter G. Jollymore, Roslyn Kunin, Michel Vennat

Corporate governance

Governance Committee The Governance Committee makes recommendations concerning the efficiency of the internal governance system. This includes determining the structure, mandate and membership of the Board's committees. Thus it was decided this year to reduce the number of committees to five, and to refer matters of risk management and business development directly to the Board of Directors. The Committee has again supervised the evaluation process that assesses the performance of the Board and its committees. The analysis of results will help determine areas requiring follow-up action during the next fiscal year.

Chairperson: Cedric E. Ritchie

Members: Jennifer Corson, James A. Durrell, Peter G. Jollymore, Cindy Sprague

s Committee The Human Resources Committee supports the Bank's belief that its success lies in its people, and works to ensure that BDC training, compensation, succession and human resources strategic plans are designed to attract and retain competent, productive and motivated employees. In addition to approving the annual compensation budget, the Committee reviews the Bank's succession plans, compensation policy and human resources strategic plans. In fiscal 2002, the Committee continued to monitor the Bank's progress in attracting and retaining qualified people, while ensuring that compensation remained competitive. The Committee also continued to support the Bank's commitment to being an employer of choice by placing particular emphasis on the development of leadership and plans for succession in senior management.

Chairperson: Peter G. Jollymore

Members: Leo E. Cholakis, Jennifer Corson, Ann Cheryl Denny, Roslyn Kunin, Roger Plamondon, Cindy Sprague

The Audit Committee oversees financial reporting, corporate financing, treasury management, performance measurement, internal control systems and codes of conduct. Its members, who are all external directors, help the Board safeguard the Bank's assets and manage its resources. It reviews the quarterly financial results and oversees the external auditors' involvement in the annual financial audit. It also reviews the work of the internal audit and inspection team and reviews the financial statements in the annual report prior to Board approval. In fiscal 2002, the Audit Committee discussed the matter of the independence of external auditors and began an in-depth review of the responsibilities of an audit committee.

Chairperson: Terry B. Grieve

Members: N. Murray Edwards, Roslyn Kunin, Oryssia Lennie, Cindy Sprague

und Committee The Pension Fund Committee monitors the activities of the pension fund, ensures that the fund is administered and financed in accordance with applicable legislation, and ensures that any changes to the plan reflect the Committee's terms of reference. In fiscal 2002, the Committee met to review the financial performance and stability of the pension fund. Members ensured that the Bank continued to receive excellent service from the external suppliers who administer the pension fund. For the pension plan year ending December 31, 2001, the fund will again report a surplus.

Chairperson: Leo E. Cholakis

Members: Clément Albert, Roslyn Kunin, Louise Piché, Roger Plamondon, Cedric E. Ritchie, Michel Vennat

Board of

Pictured from left to right:

James A. Durrell | President
Capital Dodge Chrysler Jeep Ltd. | Ottawa, Ontario

Roger Plamondon
Saint-Sauveur-des-Monts, Quebec

Leo E. Cholakis, L.L.B. | Managing Director
Kensington Building Ltd. | Winnipeg, Manitoba

Cynthia Bertolin
Edmonton, Alberta

Michel Vennat, O.C., Q.C.
President and Chief Executive Officer
Business Development Bank of Canada | Montreal, Quebec

Terry B. Grieve | Principal
Ventures West Management Inc. | Saskatoon, Saskatchewan

Roslyn Kunin, Ph.D. | President
Roslyn Kunin & Associates Inc. | Vancouver, British Columbia

Jennifer Corson | President
Renovators Resource Inc. | Halifax, Nova Scotia

Peter G. Jollymore
Saint John, New Brunswick

Gordon J. Feeney
Toronto, Ontario

Absent:

N. Murray Edwards | President
Edco Financial Holdings Ltd. | Calgary, Alberta

V. Peter Harder | Deputy Minister
Industry Canada | Ottawa, Ontario

Oryssia Lennie | Deputy Minister
Western Economic Diversification | Edmonton, Alberta

Cedric E. Ritchie, O.C. | Chairman of the Board
Business Development Bank of Canada | Toronto, Ontario

Ann Cheryl Denny | Program Director
for Aboriginal Programming
University College of Cape Breton | Sydney, Nova Scotia

Cindy Sprague | President and CEO
OmniMark Technologies Inc. | Ottawa, Ontario

Our sincere appreciation is extended to Mrs Denny and Sprague for the role they played in the development of the Bank. Their mandate expired in March 2002.

Officers

Michel Vennat, O.C., Q.C.
President and Chief Executive Officer

André Bourdeau
Executive Vice-President | Financial Services

Luc Provencher
Executive Vice-President | Integrated Risk Management

Michel Ré
Executive Vice-President | Investments

Guy G. Beaudry
Senior Vice-President | Corporate Affairs

Edmée Métivier
Senior Vice-President | Strategic Planning and Resources Management

Andrée LeBlanc Daviault
General Counsel and Corporate Secretary

Alan B. Marquis
Senior Vice-President | Finance and Chief Financial Officer

Jacques Lemoine
Senior Vice-President | Credit

Michel Desjardins
Senior Vice-President | BDC Consulting Group

Richard Morris
Vice-President | Audit, Inspection and Risk Integration

Clément Albert
Vice-President and Treasurer

After growing vigorously for several years, the economy began to slow in 2001, and the year began with uncertainty and fears of recession. However, policy stimulus combined with strong underlying fundamentals sparked economic growth in Canada of 2 percent at annual rates in the fourth quarter of 2001—modest growth by any standard, but it was enough to avoid recession and well ahead of general expectations. After expanding by 1.5 percent in 2001, the economy is forecast to grow by 2.6 percent in 2002 and by a robust 4.5 percent in 2003—the strongest performance in the G8.

The most dramatic development during the fourth quarter of 2001 was the massive liquidation of inventories, affecting a wide range of industries. As a result, industry in general will need to rebuild inventories to keep pace with sales, especially when growth gains momentum in the second half of 2002.

After stagnating through 2001, employment surged in the opening months of 2002, most notably in small and medium-sized businesses. This surge has provided a needed lift to the job market and has boosted income growth, the effect of which will be felt throughout the year.

Consumers have remained resilient. Confidence has rebounded, fueled by tax reductions; interest rates remain low; pent-up demand still exists; and employment is rising. These factors all indicate strong consumer-led demand.

Small businesses contribute significantly to the Canadian economy. During the 1999 and 2000 period (the latest period for which data are available), the number of small businesses in Canada grew by 12 percent, reaching more than 2 million. They employ more than 5 million Canadians and create 7 out of every 10 new jobs each year in this country.

Globalization, free trade and new technologies are putting increased competitive pressure on Canada's small businesses. This pressure comes from both domestic and foreign companies that have adopted new technologies faster and more effectively. To survive, small businesses have no choice but to improve their productivity. Innovation is a key driver of productivity. Innovative firms grow faster and are more productive than non-innovative companies.

Because of their relative importance in the economy, Canadian small businesses will have to play a leading role in adopting innovative practices if Canada is to improve on its performance. New technologies have spurred the development of a new breed of innovative small businesses that are often the driving force behind new products in fast-growing industries. This is especially true of high-tech startup companies, which are the greatest job creators and innovators in today's economy. Over the next few years, it will become increasingly important for small businesses to have access to the resources that will allow them to adopt innovations, so that they can improve their productivity and survive.

Given the current economic context discussed earlier, it is vital that the small business sector be supported and given the necessary tools and resources to continue its significant contribution to the country. As small businesses adapt to increasing competition and technological change, not all will be able to rely on private sector financing and consulting advice. BDC will therefore continue to meet the needs of thousands of Canada's small businesses each year, especially those fast-growing firms in Canada's knowledge-based economy, by developing initiatives specifically aimed at supporting more innovative practices in Canadian small businesses.

Management's discussion

FINANCIAL PERFORMANCE

Fiscal 2002 produced strong results for the Bank in spite of negative earnings from Venture Capital as a result of unfavourable market conditions. Portfolio growth in loans and in investments reached record levels, credit losses were lower than anticipated in the uncertain economic environment and operating expenses were well controlled.

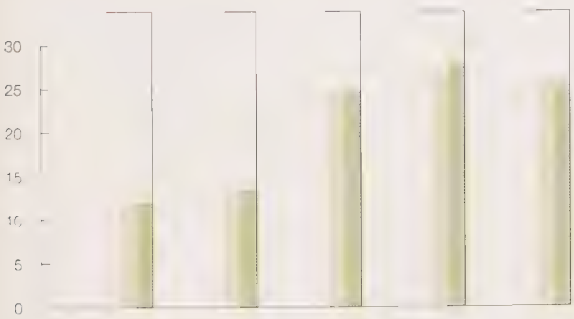
Despite unfavourable market conditions for divestitures, there was a steady demand for venture capital investment. The Bank authorized 63 deals totalling $106 million during fiscal 2002, compared to 71 deals for $114 million in fiscal 2001. The investment portfolio outstanding at March 2002 grew to $271 million at cost, from $206 million at March 2001.

However, net realized gains on investments amounted to only $2 million, compared to $76 million in fiscal 2001 and $113 million in fiscal 2000. Consequently, Venture Capital sustained an operating loss of $21 million for fiscal 2002, after write-downs of $13.8 million, the Bank's $5.1-million proportionate share of losses incurred by the seed funds and operating expenses of $10.7 million.

Internal rate of return (IRR) is a standard measure of performance in the venture capital industry. The moving 10-year average IRR of the Bank's portfolio of venture capital direct investments, before operating expenses, has grown from 12.1 percent in fiscal 1998 to 26.1 percent in fiscal 2002.

Venture Capital Internal Rate of Return (IRR)

for the year ended March 31 *(percentage)*



	1998	1999	2000	2001	2002
Direct Investments	12.1	13.5	24.8	26.9	**26.1**
Total Investments	12.1	13.6	24.9	27.9	**25.6**

The strong performance by loan operations exceeded the Corporate Plan objectives to the extent that it largely offset the shortfall from venture capital operations. The allowance for credit losses was maintained at a prudent 6.6 percent of the outstanding loan portfolio.

Return on equity of 5.7 percent, although lower than the record level of 12.6 percent in 2001, was higher than the government's long-term cost of funds.

Income Statement Discussion

The Bank's net loan portfolio showed solid growth, increasing by 12 percent from $5.1 billion at March 2001 to $5.7 billion at March 2002. Clients can choose between floating interest rates and a number of fixed term rates, which are adjusted periodically to reflect the latest market conditions. At March 2002, $3.9 billion of the loan portfolio produced interest at floating rates averaging 6.43 percent, and $1.9 billion produced interest at fixed rates averaging 8.83 percent. The net loan portfolio is financed by a debt of $5.0 billion at floating and fixed rates that closely match the maturities of portfolio assets, and by allocated equity of $0.7 billion. The average floating rate of 6.43 percent is significantly lower than the 9.45-percent rate in fiscal 2001, reflecting reductions in the Bank of Canada rates.

The net margin of 5.92 percent is the net interest income earned by the performing loan portfolio, expressed as a percentage of the total average portfolio. It shows an improvement of 10 basis points over the average of 5.82 percent in fiscal 2001, due to higher internal funds (5 points) and higher fee income from sundry complex transactions (5 points).

Lower floating interest rates during fiscal 2002 meant that both interest income of $503.4 million and interest expense of $162.8 million were significantly lower than in fiscal 2001. However, net interest income of $341 million was 12.7 percent higher than the $302 million earned in fiscal 2001, in line with the portfolio growth.

Loan Operations Net Interest Income

for the year ended March 31

The Bank's commitment to the small business sector, with emphasis on knowledge-based industries (KBIs) and startup operations, increases the probability of default. Accordingly, the Bank maintains the allowance for credit losses at a prudent level in recognition of the concomitant risks. Impaired loans of $268 million were slightly lower than the $272 million in fiscal 2001, while written-off loans increased from $40 million to $49 million. The exposure, net of underlying security, on those impaired loans was $100 million at March 2002. That exposure was fully covered by the specific allowance and resulted in a specific provision charge for the year of $56 million.

The general allowance of $301 million represents 5.2 percent of the performing portfolio of $5.8 billion, versus $262 million, or 5.1 percent of $5.1 billion, at March 2001. It is to cover the unidentified losses in that portfolio at March 2002. Maintaining the general allowance at that level required a general provision charge of $39 million.

The combined provision of $95 million for fiscal 2002 amounted to 1.7 percent of the average portfolio. It was $4 million higher than last year, excluding the $15-million special provision in fiscal 2001. The total allowance, at $401 million, remains at 6.6 percent of the portfolio and is in line with the long-term loss experience.

Provision for Credit Losses

for the year ended March 31

Loan authorizations in fiscal 2002 were 13 percent higher than in fiscal 2001, while operating expenses of $165 million increased by only 4 percent, reflecting important gains in employee productivity and control over expenditures. Staff levels remained relatively stable during the year, which is important because salary and benefit costs account for half of the Bank's operating expenses. The Bank reduced other expenses through budgetary controls.

Management's discussion

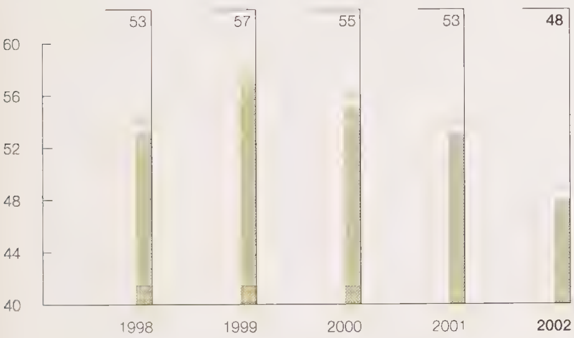
The Bank continued to improve its training and development programs, and implemented a far-reaching process improvement project during the year.

The accounting credit for pension income decreased from $13.1 million in fiscal 2001 to $9.9 million in fiscal 2002, increasing staff benefit costs by $3.2 million.

Consequently, the productivity ratio improved again—from 53 percent in fiscal 2001 to 48 percent in fiscal 2002. This important measure compares operating expenses to net interest income, and the lower ratio indicates improved productivity. In addition, the customer satisfaction rating increased from 88 percent in fiscal 2001 to 90 percent in fiscal 2002, indicating that both productivity and customer service increased simultaneously.

Loan Operations Productivity Ratio

for the year ended March 31 *(percentage)*

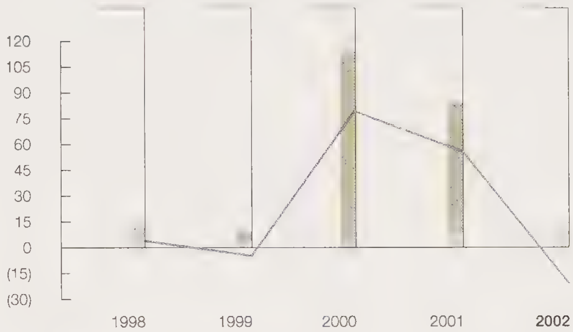


VENTURE CAPITAL OPERATIONS

Unfavourable market conditions adversely affected divestitures in fiscal 2002. Consequently, investment income fell significantly to $8.7 million, compared to $84.2 million in fiscal 2001. However, the investment portfolio of $271 million held its value well. In fiscal 2002, an additional loss of $5.1 million was booked, representing the Bank's proportionate share of written-down investments within the seed funds managed by external parties. Excluding the proportionate share of investments, the write-downs of $13.8 million were similar to the $13.3 million in write-downs recorded in fiscal 2001.

Venture Capital Operations

for the year ended March 31 *($ in millions)*

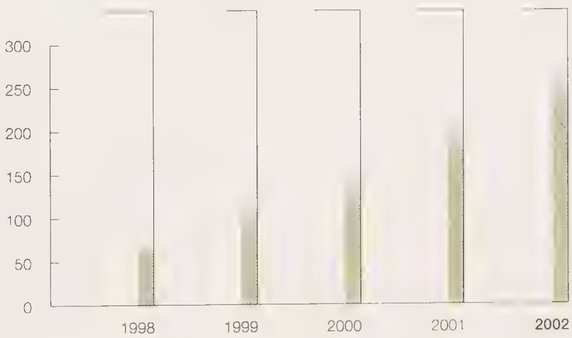


	1998	1999	2000	2001	**2002**
Realized gains on investments	6.9	6.0	112.7	75.8	**1.7**
Other income	4.5	3.1	1.6	8.4	**7.0**
+ Total investment income	11.4	9.1	114.3	84.2	**8.7**
Venture Capital operating profit (loss)	4.2	(4.1)	80.0	56.2	**(21.0)**

The activity level in new direct investments increased significantly during fiscal 2002, in spite of economic uncertainties, from $84 million to $98 million, and the total investment portfolio grew from $206 million to $271 million. At March 2002, unrealized gains were estimated at a further $56 million, which will be brought into income when the investments are realized in subsequent years, if the market conditions prevail.

Total Investment Outstanding

as at March 31 *($ in millions)*



	1998	1999	2000	2001	**2002**
Direct investments	63.1	95.0	122.8	177.8	**237.3**
Venture funds	6.9	15.3	22.3	28.6	**33.8**
+ Total investments	70.0	110.3	145.1	206.4	**271.1**

Operating and administrative expenses of $10.7 million in fiscal 2002 were lower than the figure of $14.7 million last year, with no accrual for incentive compensation.

Consulting services provided to Canadian businesses produced third-party revenues of $18.2 million, slightly higher than the $17.7 million in revenue in fiscal 2001. The net operating loss of $5.7 million was higher than the $5.1-million loss in fiscal 2001, after recording some one-time costs related to process improvements.

Reflecting the Bank's decision in September 1996 to fund the deficit in Consulting Group operations entirely from internal resources, the Bank has not requested a government appropriation since that time.

Balance Sheet Discussion

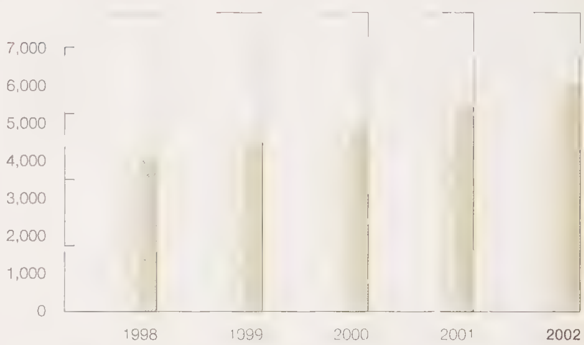
Accompanied by a 13-percent increase in the net loans and venture capital portfolios, total assets increased by $0.7 billion, from $6.2 billion at March 2001 to $6.9 billion at March 2002.

The Bank operates within established liquidity parameters to ensure that sufficient funds are available to meet customers' needs, while taking an organized approach to money market requirements. Cash and short-term investments at year-end amounted to $715 million, similar to the level of $674 million in 2001.

Net outstanding loans, venture capital investments, cash and short-term assets aggregating over $6.6 billion,* which comprised the Bank's principal assets, were funded by borrowings of $5.6 billion and shareholder's equity of nearly $1.0 billion. The net portfolio growth of $680 million during fiscal 2002 was mostly funded by borrowings of $648 million.

Total Outstanding Loans vs. Borrowings

as at March 31 *($ in millions)*



	1998	1999	2000	2001	**2002**
Loans	4,072	4,501	4,903	5,412	**6,071**
Borrowings	3,838	4,223	4,483	4,949	**5,597**

The venture capital portfolio of $271 million at cost increased by $65 million during fiscal 2002, excluding unrealized gains estimated at $56 million.

Capital assets of $29 million comprise furniture, tenant improvements and capitalized information technology investments, net of depreciation.

Other assets of $213 million include the unrealized gains of $153 million from derivatives, which are partly offset by unrealized losses of $36 million, as the Bank fully hedges all such transactions to minimize risk.

Total shareholder's equity at year-end was $960 million, compared to $923 million last year. The resulting rise in the capital base will enable the Bank to increase its support for the growing needs of small businesses. For the sixth consecutive year, BDC has declared a dividend. The amount of the dividend for fiscal 2002 is $16.7 million on its preferred shares, payable to the Government of Canada.

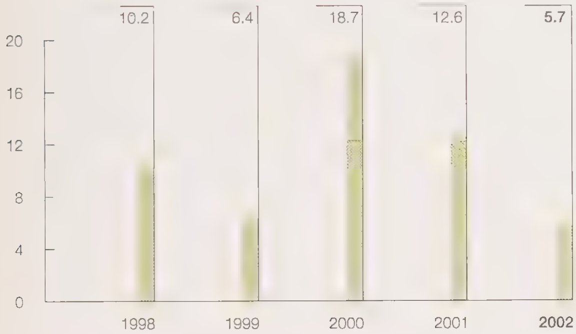
* Shares are held by persons subject to section 33 of the *Business Development Bank of Canada Act* in Toon Boon Technologies Inc., a $3.4-million investment, and in Alliance Medical Inc., a $380,000 loan.

The Bank operated within all statutory limits for the year ended March 31, 2002. At year-end, the debt-to-equity ratio was 5.8:1.

Net income of $53.7 million provided a return on average common shareholder's equity of 5.7 percent, 6.9 percent lower than in fiscal 2001. This decrease is due to higher levels of equity in fiscal 2002 and to the operating loss from Venture Capital that year.

Return on Common Equity

as at March 31 *(percentage)*



Comparison with 2002 Corporate Plan

Despite the uncertain economic environment, performance in loan operations was significantly better than forecast in the Corporate Plan: authorizations of $1,742 million were $137 million ahead of the plan level, the portfolio was $216 million higher, the margin was 10 basis points better and the provision for losses was $15 million lower, reflecting the quality of the transactions. Productivity gains were such that operating and administration expenses of $165 million were $7 million lower than planned. Consequently, net income of $80 million from Loans exceeded the plan by $35 million.

Venture Capital profit, however, was severely affected by a dearth of divestiture opportunities, given the adverse market. Consequently, venture capital operations incurred a loss of $21 million versus the planned $17-million profit—a swing of $38 million. However, investment activities during fiscal 2002 continued at a strong pace, with $98 million authorized in direct investments, above the plan level of $85 million, while the portfolio held its value relatively well.

BDC Consulting Group activities were also influenced by a tighter market, and revenues of $18 million fell short of the $20 million planned, with an operating loss of $5.7 million versus the $3-million loss planned. Those results, however, were in line with the fiscal 2001 results.

Consolidated net income of $53.7 million was close to the Corporate Plan level of $59 million, with the very strong performance from Loans offsetting the operating loss from Venture Capital.

2003 Corporate Plan

The Bank will continue to increase its support to small businesses. The loan portfolio will grow by 7 percent to $6.5 billion and produce net interest income of $358 million. After operating expenses of $180 million and provisions of $115 million, the results will yield a net income of $63 million.

Venture capital activities will continue at a high rate—$90 million in direct investments and $50 million committed to the fund-of-fund initiative. Divestitures will recover somewhat during the year, producing close to break-even net income. The Corporate Plan provides for an infusion of $75 million of additional equity to support an equivalent growth in the venture capital portfolio during fiscal 2003.

BDC Consulting Group will continue to focus on serving the needs of Canadian small businesses, and revenues will increase to $19 million, while the loss from operations will be reduced to $3 million.

The Corporate Plan for 2003 anticipates consolidated net income of $59 million, compared to the $53.7 million recorded in fiscal 2002.

Risk Management Integration

The recent mandate review has clarified the way forward for the Bank. In this context, risk management is designed to help BDC achieve strategies and objectives consistent with the mandate. The Bank has well-established processes for managing business risks, primarily credit risk, market risk and operational risk, which are increasingly being focussed towards integration.

The Bank monitors its compliance with the Financial Risk Management Guidelines for Crown Corporations issued by the Minister of Finance. Management informs the Board regularly about the Bank's various risk exposures. A recently formed risk management group, headed by the Executive Vice-President, Integrated Risk Management, and reporting to the President and Chief Executive Officer, supports this.

The Asset and Liability Committee, which includes senior officers of the Bank, and the Bank's credit risk function periodically review the policies governing credit, market and liquidity risks related to the Bank's operations. The Committee's policies are approved by the Board of Directors and ensure financial risks are responsibly managed to safeguard the Bank's assets.

quality • Loan portfolio *Credit risk is the risk of financial loss that arises from the possibility of default on an asset.*

The Bank's mandate requires it to lend to a high-risk segment of the domestic commercial loan sector. As the portfolio comprises a disproportionately large volume of small loans, it is not possible to attribute ratings of independent credit agencies. Thus, credit decisions are based more on the credit assessment of BDC's experience with like customers. Policies and procedures, together with risk evaluation tools developed by the Risk Group, support these business decisions. Credit decisions are decentralized to local professional staff and are subject to independent review and audit. All loans are subject to regular review according to risk, and reports are routinely provided to management and the Board.

A resulting measurement of credit quality is the level of impaired loans. These are loans for which, in the opinion of management, the Bank has no reasonable expectation of fully collecting the amount outstanding. At the Bank, despite significant increases in loan volumes and uncertain economic times, impaired loans amounted to $268 million at March 2002, compared to $272 million a year ago. This suggests that the performance of the small business sector has been robust. A specific allowance for credit losses of $100 million has been established to cover the net exposure on these loans.

A general allowance at March 2002 of $301 million relates to performing loans amounting to $5.8 billion. This is maintained to mitigate the ultimate exposure to loss from such loans and is determined based on historical performance, modelling techniques, estimated credit losses for the current phase of the economic cycle and judgment. To maintain the allowances, the Bank charged earnings with provisions at the rate of 1.7 percent of the average portfolio in fiscal 2002 and 2.0 percent in fiscal 2001.

Risk concentration • Loan portfolio *Concentration risk is the risk of several loan assets or borrowers defaulting at the same time.*

Operating as it does within the domestic Canadian economy, the Bank's loan portfolio is extensively diversified, both geographically and by industry sector. However, given the focus on startup and early-stage financings, loans to knowledge-based and technology industries continue to increase as an important proportion of higher risk loans. The loan portfolio has grown at a compounded annual rate of over 10 percent for the past five years and now amounts to net $5.7 billion. That growth is matched by an increase in the number of loans outstanding, as the Bank continues to focus on the needs of small businesses.

As the Bank operates independently of any external guarantees or loss insurance, it assumes the entire risk on loan transactions and ultimately will experience losses on a certain proportion of them. BDC Consulting Group helps manage that risk exposure for some of those businesses by providing external expertise to improve the firms' probability of success.

Credit quality • Liquidity investments The Bank has a restrictive policy governing its liquidity investment activity. Permitted securities for liquidity investments are those issued or guaranteed by the Government of Canada or a province, or by members of the Canadian Payments Association (CPA), therefore meeting stringent credit rating conditions. As at March 31, 2002, over 90 percent of the Bank's liquidity investments matured within three months.

Risk Exposure in Short-Term Investments and Securities

as at March 31, 2002 *($ in millions)*

	Term to maturity		
Credit rating*	Less than 3 months	3 months to 1 year	1 to 5 years
AAA	0.0	0.0	0.0
AA- to AA+	443.6	9.5	57.5
A to A+	205.9	0.0	0.0
Total	649.5	9.5	57.5

* From major credit agencies.

Derivative instruments *Issuer/counterparty risk is the risk of the non-performance of a counterparty and the possible default of a treasury asset or risk transfer transaction, such as a derivative instrument.*

The Bank has a credit limit policy to monitor and manage the credit risk associated with derivatives. The Bank establishes global contractual limits regarding the creditworthiness of each counterparty. Counterparty credit risk exposure arises strictly when such instruments have positive market value. The Bank signs International Swaps and Derivatives Association (ISDA) agreements with each derivative counterparty and periodically reviews counterparties to ensure they adhere to its standards.

Counterparty Credit Risk Exposure

as at March 31, 2002 *($ in millions)*

	Term to maturity			
	Before impact of master netting agreements			After impact of master netting agreements
Credit rating*	Less than 1 year	1 to 3 years	3 years and over	
AAA	0.0	0.0	0.0	0.0
AA- to AA+	4.1	26.0	49.5	21.1
A to A+	6.5	0.0	0.0	4.6
Total	10.6	26.0	49.5	25.7

* From major credit agencies

Market risk is the risk that the value of assets, liabilities or other financial instruments will vary because of changes in market prices.

Market risk includes exposure to interest rates, foreign exchange, liquidity and equity prices.

BDC gets its funds by issuing money market commercial paper and capital market long-term notes. The Bank has a market risk policy to monitor and manage the market risk exposure associated with these financial activities. Market risk factors, such as foreign exchange, equity or commodity prices, or other possible risk factors arising from funding activities, are hedged by the Bank at the transaction level. Canadian interest rate risk comprises the residual market risk exposure.

Interest rate risks are related to residual differences in the terms and amounts of assets and their underlying liabilities. The Bank uses borrowing strategies and derivative instruments to try to minimize those differences. As at March 31, 2002, 33 percent of the Bank's loan portfolio comprised loans with fixed interest rates, compared to 36 percent the previous year.

The following table shows the interest rate gap position of the Bank as at March 31, 2002, after accounting for the effect of derivative instruments.

Interest Rate Sensitivity Gap

as at March 31, 2002 *($ in millions)*

	Total assets	Total liabilities and shareholder's equity	Gap
Within 1 year	5,404	5,195	209
1 to 2 years	530	365	165
2 to 3 years	277	150	127
3 to 4 years	214	100	114
4 to 5 years	138	72	66
Over 5 years	231	0	231
Non-interest sensitive	103	1,015	(912)
Total	6,897	6,897	0

The Bank measures its interest rate risk by modelling the variability of its net interest income when subjected to a 2-percent shift in interest rates. As at March 31, 2002, this sensitivity would amount to 1 percent of projected net interest income.

The Bank uses the Value-at-Risk (VaR) methodology to measure the sensitivity of its economic value. For this purpose, the Bank uses a 99-percent confidence level and one year of historical data.

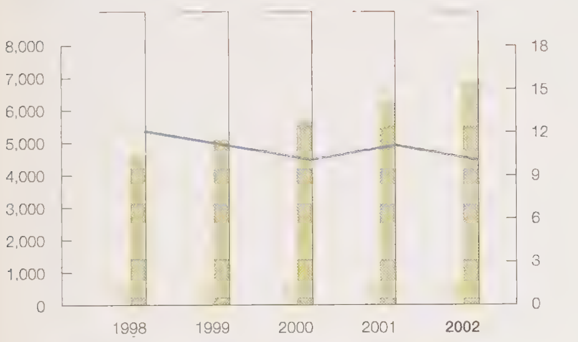
The Bank is not exposed to fluctuations in foreign currencies. Loan assets are maintained in Canadian currency, while borrowing liabilities originated in foreign currency are fully hedged at the transaction level to Canadian currency through the use of cross-currency swaps and foreign exchange forward contracts.

Cash flow liquidity risk is the risk of an inability to obtain necessary funds to meet financial obligations.

The Bank manages liquidity to ensure availability of funds at all times. Its liquidity policy requires close monitoring of operational cash flows and sets specific limits for day-to-day cash management.

Liquidity Ratio

as at March 31



	1998	1999	2000	2001	2002
Total assets (value)	4,588	5,098	5,666	6,226	**6,897**
Cash, short-term investments and securities (value)	557	546	578	674	**715**
Liquidity ratio	12%	11%	10%	11%	**10%**

Investments By their nature, venture capital investments are high risk. Successful investments are realizable privately or through transactions on public financial markets that depend heavily on equity prices. The Bank mitigates such risks through conservative valuation, syndication of investments and regular monitoring, and divests its holdings on a phased basis, taking into account market conditions and applicable restrictions on such transactions.

OPERATIONAL

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, processes or systems, or from rare but severe events, such as natural disasters.

The Bank has an internal control framework of systems and processes that it relies on to perform its business transactions. Comprehensive policies and processing procedures govern information processing, lending operations, staff management and other key operational functions.

The Bank has a comprehensive business recovery planning process to ensure continuity in its key business functions in case of disaster. It successfully tested this process during the year.

BDC manages the risks associated with technology and telecommunication failures through programs for replacement of computer systems and equipment, and through security and control procedures to ensure accurate, timely and efficiently managed information.

To manage the risks associated with human resources, the Bank encourages competency and supports development of employees' skills. The Bank has a comprehensive training and development program for staff and has introduced various incentives to further develop employee skills. This approach is supported by a "culture of ethics" founded on the Code of Conduct and linked to the Ombudsman's office. The Code of Conduct covers such things as conflicts of interest and reporting requirements for contacts by lobbyists. The Bank is also actively engaged in an employer of choice program to motivate staff and increase employee commitment.

Financial statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimation, which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee, which comprises directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

Michel Vennat
President and Chief Executive Officer

Alan B. Marquis
Senior Vice-President, Finance and Chief Financial Officer

Montreal, Canada
May 24, 2002

AUDITORS' REPORT

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2002, and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act,* we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Montreal, Canada
May 24, 2002

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 24, 2002

BALANCE SHEET

as at March 31 *($ in thousands)*	2002	2001
ASSETS		
Cash and short-term investments (Note 3)	$ 632,441	$ 605,955
Securities (Note 4)	82,655	67,808
	715,096	673,763
Loans, net of allowance for credit losses (Notes 5 and 6)	5,669,513	5,054,254
Venture capital investments (Note 7)	271,064	206,360
	5,940,577	5,260,614
Capital assets, net of accumulated amortization	28,912	32,318
Other assets (Note 8)	212,619	258,823
	241,531	291,141
TOTAL ASSETS	$ 6,897,204	$ 6,225,518
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	$ 64,545	$ 55,626
Accrued interest on borrowings	129,226	152,698
	193,771	208,324
Borrowings (Note 9)		
Short-term notes	3,444,279	2,604,399
Long-term notes	2,152,764	2,344,722
	5,597,043	4,949,121
Other liabilities (Note 10)	146,070	144,769
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	598,400	598,400
Contributed surplus	27,778	27,778
Retained earnings	334,142	297,126
	960,320	923,304
Contingent Liabilities and commitments (Note 16)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 6,897,204	$ 6,225,518

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

Terry B. Grieve
Director

Michel Vennat
Director

STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended March 31 *($ in thousands)*	2002	2001
FINANCIAL SERVICES		
Loans		
Interest income	$ 503,442	$ 527,419
Interest expense (Note 12)	162,797	225,194
Net interest income	340,645	302,225
Provision for credit losses (Note 6)	95,000	106,000
Net interest income after provision for credit losses	245,645	196,225
Operating and administrative expenses (Note 13)	165,187	158,971
Income from Loans	80,458	37,254
Venture Capital		
Interest and dividends	3,608	5,870
Net realized gains on investments	1,747	75,756
Other	3,338	2,549
Investment income	8,693	84,175
Write-down on investments	18,948	13,306
Net investment (loss) income	(10,255)	70,869
Operating and administrative expenses (Note 13)	10,722	14,701
(Loss) income from Venture Capital	(20,977)	56,168
INCOME FROM FINANCIAL SERVICES	59,481	93,422
CONSULTING GROUP		
Revenue	18,189	17,724
Operating and administrative expenses (Note 13)	23,937	22,824
LOSS FROM CONSULTING GROUP	(5,748)	(5,100)
NET INCOME	53,733	88,322
RETAINED EARNINGS		
Beginning of year	297,126	222,648
Dividend on preferred shares	(16,717)	(13,844)
End of year	$ 334,142	$ 297,126

The accompanying Notes to Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

for the year ended March 31 (*$ in thousands*)	2002	2001
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	$ 53,733	$ 88,322
Adjustments to determine net cash flows:		
Net realized gains on venture capital investments	(1,747)	(75,756)
Provision for credit losses and write-down of venture capital investments	113,948	119,306
Amortization of capital assets	10,355	11,785
Change in interest receivable on loans	1,616	(3,932)
Change in accrued interest on borrowings	(16,552)	14,797
Translation adjustment on borrowings and securities	(84,337)	18,025
Net change in unrealized gains and amounts receivable on derivative financial instruments	63,133	49,403
Net change in unrealized losses on derivative financial instruments	(12,930)	(77,223)
Net change in other assets and other liabilities	(699)	3,035
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	126,520	147,762
CASH FLOWS USED IN INVESTING ACTIVITIES		
Disbursements for loans	(1,868,894)	(1,710,228)
Disbursements for venture capital investments	(102,547)	(83,508)
Repayments of loans	1,157,019	1,162,094
Proceeds on sales of venture capital investments	20,642	84,705
Net acquisition of capital assets	(6,949)	(4,224)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(800,729)	(551,161)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Issue of long-term notes	798,945	511,542
Repayment of long-term notes	(943,271)	(672,561)
Net change in short-term notes	875,445	604,247
Net change in securities	(13,707)	21,067
Proceeds from issue of preferred shares	—	65,000
Dividend paid on preferred shares	(13,844)	(8,889)
Other	(2,873)	(4,955)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	700,695	515,451
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	26,486	112,052
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	605,955	493,903
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 632,441	$ 605,955
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid in the year	$ 179,349	$ 210,397

The accompanying Notes to Financial Statements are an integral part of this statement.

March 31, 2002 *($ in thousands except as otherwise indicated)*

1. **ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION**

The Business Development Bank of Canada (BDC) is a Crown corporation, which was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. The Bank offers to Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments, which are secured by the Government of Canada. The *Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

2. **SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs and disclosure of fair values of venture capital investments. A variation in the circumstances or economic conditions under which these estimates are made could result in a significant change in these management judgments. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are netted against interest expense.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans that are considered impaired.

Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses,* the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses, which is charged against income and is reduced by write-offs, net of recoveries.

The allowance for credit losses comprises specific and general allowances.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent in the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture Capital Investments

Venture capital investments are recorded at cost, whereby interest and dividends are included in income when received. Investments in venture capital and seed capital funds over which the Bank has joint control or significant influence are accounted for using the proportionate consolidation or equity accounting method, respectively. Under these methods, the Bank accrues its share of the undistributed income or expenses of the funds. Gains or losses on disposal of investments are recognized in income when realized. However, when the value of an investment is permanently impaired, the investment is written down to recognize the loss.

Non-cash consideration received on disposal of investments is presented as temporary investments within venture capital investments and recorded at the lower of the value at the date of sale of the venture capital investment and current market value at the balance sheet date.

Capital Assets and Amortization

Capital assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

Computer equipment and software	3-7 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, Discounts and Debt Issue Expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

Derivative Financial Instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. These financial instruments are used as hedges for the sole purpose of matching assets and liabilities. These derivatives are accounted for on an accrual basis with the related revenue or expense recognized over the life of the hedged position as an adjustment to interest expense.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Employee Future Benefits

The Bank maintains defined benefit pension plans for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The net pension expense or credit comprises the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on pension liabilities, expected income on plan assets based on an average of market-related values and the amortization of experience gains or losses, adjustments from plan amendments and transitional balances upon adoption of the current accounting policy. Amortization is charged on a straight-line basis over the expected average remaining service life of the employees covered by the plans.

Amortization of actuarial gains or losses is recognized in the expense for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligation or 10% of the fair market value of the plan assets, whichever is greater. Amortization corresponds to the excess divided by active employees' expected average remaining service life.

The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits which are accrued based on actuarial valuations.

3. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments comprise bank account balances, net of cheques outstanding, and short-term bank deposits with maturities at original acquisition date of less than 90 days.

4. SECURITIES

	Term to maturity			
	Within 1 year	1 to 3 years	**2002 Total**	2001 Total
Canada				
Carrying value	$ 25,879	$ —	**$ 25,879**	$ 25,605
Yield	6.75%	—	**6.75%**	6.59%
Fair value	$ 25,936	$ —	**$ 25,936**	$ 26,132
Financial Institutions				
Carrying value	$ —	$ 56,776	**$ 56,776**	$ 42,203
Yield	—	2.84%	**2.84%**	5.80%
Fair value	$ —	$ 57,497	**$ 57,497**	$ 43,165
Total				
Carrying value	$ 25,879	$ 56,776	**$ 82,655**	$ 67,808
Yield	6.75%	2.84%	**4.09%**	6.10%
Fair value	$ 25,936	$ 57,497	**$ 83,433**	$ 69,297
Swap Contracts				
Notional amount	$ 24,950	$ 53,585	**$ 78,535**	$ 64,950
Adjusted yield (1)	2.00%	2.26%	**2.18%**	5.40%
Amounts denominated in foreign currencies included in the carrying value of securities				
		US dollars - 2001 36,964		$ 58,240
		US dollars - 2002 45,814	**$ 72,962**	

(1) After adjusting for the effect of related derivatives (see Note 15).

All securities held as at March 31 were issued by Canadian entities at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to adjust the interest rate and the foreign exchange risks associated with the above securities.

5. LOANS

The following table summarizes the repricing or maturity dates, whichever are earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2002		2001	
Performing—floating	$ 3,854,234	6.43%	$ 3,282,891	9.45%
Performing—fixed				
Under one year	473,370	8.19%	415,658	9.67%
1 to 2 years	439,889	8.50%	220,343	9.28%
2 to 3 years	211,761	9.16%	364,963	9.37%
3 to 4 years	247,302	9.64%	174,633	9.66%
4 to 5 years	162,552	9.34%	235,669	9.74%
Over 5 years	413,633	9.08%	446,009	9.22%
Performing	5,802,741		5,140,166	
Impaired	267,958		272,242	
Total loans	6,070,699		5,412,408	
Allowance for credit losses				
General	(300,746)		(261,982)	
Specific	(100,440)		(96,172)	
	(401,186)		(358,154)	
Loans, net of allowance for credit losses	$ 5,669,513		$ 5,054,254	

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The Bank believes it does not have any significant concentrations in any individual or related group of clients.

Geographic Distribution	2002		2001	
Newfoundland and Labrador	$ 215,141	3.6%	$ 188,830	3.5%
Prince Edward Island	42,261	0.7%	41,140	0.8%
Nova Scotia	128,716	2.1%	112,203	2.1%
New Brunswick	223,168	3.7%	213,562	4.0%
Quebec	2,483,772	40.9%	2,239,607	41.4%
Ontario	1,832,667	30.2%	1,519,773	28.1%
Manitoba	99,684	1.6%	91,788	1.7%
Saskatchewan	102,522	1.7%	98,984	1.8%
Alberta	354,743	5.8%	309,950	5.7%
British Columbia	539,734	8.9%	543,699	10.0%
Yukon	20,964	0.3%	24,093	0.4%
Northwest Territories and Nunavut	27,327	0.5%	28,779	0.5%
Total loans outstanding	$ 6,070,699	100.0%	$ 5,412,408	100.0%

6. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31.

	2002	2001
Balance at beginning of year	$ 358,154	$ 294,804
Write-offs	(49,008)	(40,130)
Interest income due to accretion	(5,100)	(4,885)
Recoveries	2,140	2,365
	306,186	252,154
Provision for credit losses	95,000	106,000
Balance at end of year	$ 401,186	$ 358,154

7. VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments, which is focussed on companies with promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The Bank believes it does not have any significant concentrations in any individual client.

	2002		2001	
Industry Sector	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Biotechnology/Medical/Health	$ 80,692	$ 87,418	$ 65,745	$ 95,830
Computer	49,504	53,028	38,530	41,712
Venture Capital Seed Funds	25,917	39,676	28,406	58,721
Venture Capital Funds	7,885	10,495	250	9,050
Electronics	49,707	69,615	27,139	40,728
Communications	39,257	48,562	34,235	55,410
Energy	6,015	6,015	2,794	2,824
Industrial	3,484	3,890	3,658	3,658
Consumer-related	2,538	2,574	2,538	2,574
Other	6,065	6,200	3,065	3,614
Venture capital investments	$ 271,064	$ 327,473	$ 206,360	$ 314,121

(See Note 14 for determination of fair value)

The preceding table includes $13,567 ($11,829 in 2001) of temporary investments, with a fair value of $14,548 ($11,829 in 2001).

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

Carrying Value	2002	2001
Common shares	$ 121,441	$ 114,491
Preferred shares	129,879	77,040
Debentures	19,744	14,829
Venture capital investments	$ 271,064	$ 206,360

The Bank has invested in T^3C^2 Bio, T^2C^2 Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2002	2001
Current assets	$ 3,949	$ 2,924
Venture capital investments	21,581	25,077
Other assets	13	20
Current liabilities	15	76
Investment income	2,311	1,666
Write-down on investments	5,142	—
Operating and administrative expenses	1,318	1,119
Net (loss) income	$ (4,149)	$ 547
Cash flows from (used in):		
Operating activities	$ (872)	$ (1,006)
Investing activities	410	(8,588)
Financing activities	1,748	9,270

8. OTHER ASSETS

	2002	2001
Unrealized gains and amounts receivable on derivative financial instruments	$ 153,283	$ 216,415
Accrued benefit asset	51,419	37,883
Unamortized debt issue expenses on long-term notes	794	1,868
Other	7,123	2,657
	$ 212,619	$ 258,823

8. **OTHER ASSETS** (continued)

Unrealized gains and amounts receivable on derivative financial instruments are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings. Unrealized losses and amounts payable to counterparties under derivative contracts are included in "Other liabilities" (see Note 10) and in "Accrued interest on borrowings".

9. **BORROWINGS**

The Bank issues debt instruments in world capital markets to fund its loan portfolio. All foreign exchange risk is hedged through the use of derivatives. In addition, where appropriate, the Bank enters into interest rate, cross-currency interest rate and equity-linked swap contracts to hedge the related interest rate and equity market risks. The table below shows the outstanding notes as at March 31.

		2002			2001		
Maturity date	**Currency**	**Effective rate**	**Principal Amount**	**Carrying Value**	Effective rate	Principal Amount	Carrying Value
Short-term notes							
2002	US dollars				4.47%-5.81%	$ 610,100	
	CDN dollars					1,658,840	$ 2,604,399
2003	US dollars	1.77%-2.90%	$ 1,235,065				
	CDN dollars		1,488,305	**$ 3,444,279**			
Total short-term notes				**$ 3,444,279**			2,604,399

		2002			2001		
Maturity date	**Currency**	**Effective rate***	**Principal Amount**	**Carrying Value**	Effective rate	Principal Amount	Carrying Value
Long-term notes							
2002	US dollars				4.57%-5.60%	$ 152,500	
	Yen				4.79%	2,000,000	
	CDN dollars				4.36%-5.03%	318,000	$ 573,905
2003	US dollars	1.77%-1.84%	$ 13,000				
	CDN dollars	1.88%-6.25%	276,500	**$ 296,272**	4.77%-6.25%	163,500	163,500
2004	CDN dollars	1.59%-6.10%	317,500	**317,500**	4.67%-6.10%	368,154	368,154
2005	Yen				4.69%	500,000	
	CDN dollars	1.83%-5.15%	181,000	**181,000**	4.78%-5.13%	60,000	68,384
2006	CDN dollars	1.75%-5.65%	235,098	**235,098**	4.56%-5.65%	178,984	178,984
2007	US dollars				4.71%-4.75%	15,196	
	Euro	1.85%	4,587		4.61%	4,587	
	CDN dollars	1.70%-6.01%	257,094	**263,224**	4.51%-6.01%	188,477	214,504
2008	CDN dollars	1.80%-4.20%	114,600	**114,600**	4.61%-5.71%	105,600	105,600
2009	CDN dollars	1.68%-5.39%	227,297	**227,297**	4.64%-5.39%	131,950	131,950
2010	Yen				4.69%-5.53%	5,100,000	
	US dollars	1.83%-5.82%	25,000		5.82%	15,000	
	CDN dollars	1.70%-1.92%	102,665	**142,493**	4.72%-4.95%	28,000	129,728
2011	Yen				4.54%-4.65%	1,500,000	
	US dollars	1.79%	10,000		4.71%	10,000	
	CDN dollars	1.66%-2.07%	65,000	**80,850**	4.36%-5.25%	65,000	103,927
2012	Yen	1.87%	500,000		4.65%-4.91%	7,600,000	
	CDN dollars	1.87%-1.93%	35,000	**48,276**	4.70%-4.83%	43,000	144,868
2014	Yen	1.83%-1.86%	1,600,000	**19,212**			
2015	Yen	1.81%-1.85%	2,600,000	**31,220**	4.58%-4.91%	10,700,000	133,723
2016	Yen				4.68%-4.70%	2,200,000	27,495
2017	Yen	1.82%-1.92%	16,300,000	**195,722**			
Total long-term notes				**$ 2,152,764**			$ 2,344,722

* *The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 15*

9. **BORROWINGS** (continued)

The preceding table includes $1,592,764 in 2002 and $1,745,068 in 2001 of long-term notes payable that have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio.

The maturity dates for callable and extendable notes are presented based on their first option date.

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the preceding table are as follows:

	2002	2001
Interest-bearing notes	$ 560,000	$ 790,160
Notes linked to equity indices	731,689	485,298
Notes linked to currency rates	104,890	291,454
Notes linked to swap rates	69,643	119,867
Notes callable prior to maturity	188,822	270,950
Notes extendible beyond maturity	118,000	153,000
Other structured notes	379,720	233,993
	$ 2,152,764	$ 2,344,722

As at March 31, 2002, the payment requirements and maturities of long-term notes are as follows:

2003	$ 296,272
2004	317,500
2005	181,000
2006	235,098
2007	263,224
2008 and later	859,670
	$ 2,152,764

10. **OTHER LIABILITIES**

	2002	2001
Deferred income	$ 927	$ 1,420
Accrued benefit liability	88,436	78,903
Unrealized losses on derivative financial instruments	36,150	42,012
Other	20,557	22,434
	$ 146,070	$ 144,769

11. SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding	2002			2001		
	Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares						
Class A — Series 1	500,000	$ 50,000	5.592%	500,000	$ 50,000	5.595%
— Series 2	500,000	50,000	6.545%	500,000	50,000	6.545%
— Series 3	500,000	50,000	5.515%	500,000	50,000	5.515%
— Series 4	400,000	40,000	5.548%	400,000	40,000	6.270%
— Series 5	400,000	40,000	6.251%	400,000	40,000	6.270%
— Series 6	650,000	65,000	4.879%	650,000	65,000	4.933%
		295,000			295,000	
Common shares	3,034,000	303,400		3,034,000	303,400	
Total Outstanding Share Capital		$ 598,400			$ 598,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from one to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.230% to 0.375%.

Statutory Limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $1.5 billion.

12. INTEREST EXPENSE

	2002	2001
Interest on borrowings	$ 195,127	$ 264,166
Security and short-term investment income	(32,330)	(38,972)
	$ 162,797	$ 225,194

13. OPERATING AND ADMINISTRATIVE EXPENSES

	2002			2001		
	Financial Services		Consulting Group	Financial Services		Consulting Group
	Loans	Venture Capital		Loans	Venture Capital	
Salaries and staff benefits	$ 89,437	$ 4,835	$ 18,479	$ 79,276	$ 9,365	$ 16,369
Premises and equipment	24,654	1,017	1,305	25,486	868	2,353
Other expenses	51,096	4,870	4,153	54,209	4,468	4,102
	$ 165,187	$ 10,722	$ 23,937	$ 158,971	$ 14,701	$ 22,824

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However, many of the financial instruments lack an available trading market. Therefore, in these cases fair values are estimated using present value and other valuation techniques, which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2002			2001		
	Carrying value	Fair value	Fair value over (under) carrying value	Carrying value	Fair value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and short-term investments	$ 632,441	$ 632,441	$ —	$ 605,955	$ 605,955	$ —
Securities (Note 4)	82,655	83,433	778	67,808	69,297	1,489
Loans, net of allowance for credit losses	5,669,513	5,680,904	11,391	5,054,254	5,080,582	26,328
Venture capital investments	271,064	327,473	56,409	206,360	314,121	107,761
Other assets	7,123	7,123	—	2,657	2,657	—
	$ 6,662,796	$ 6,731,374	$ 68,578	$ 5,937,034	$ 6,072,612	$ 135,578
Liabilities						
Accounts payable and accrued liabilities	$ 64,545	$ 64,545	$ —	$ 55,626	$ 55,626	$ —
Accrued interest on borrowings	129,226	129,226	—	152,698	152,698	—
Short-term notes	3,444,279	3,444,279	—	2,604,399	2,604,399	—
Long-term notes	2,152,764	2,155,999	3,235	2,344,722	2,427,158	82,436
	$ 5,790,814	$ 5,794,049	$ 3,235	$ 5,157,445	$ 5,239,881	$ 82,436
			$ 65,343			$ 53,142
Derivative financial instruments (Note 15)	$ 13,148	$ (19,977)	$ (33,125)	$ 87,077	$ 89,430	$ 2,353
Total			$ 32,218			$ 55,495

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair values are based on a range of valuation methods and assumptions, which are as follows:

Financial instruments valued at carrying value—The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities—The fair value of securities is provided in Note 4 to the financial statements.

Loans—For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses.*

Venture capital investments—For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

Long-term notes—The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments—The fair value of derivative financial instruments is provided in Note 15 to the financial statements.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative financial instruments as hedging transactions for the sole purpose of matching its assets and liabilities and hedging market risk exposure. These transactions are designed to reduce the Bank's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange.

Depending on the circumstances, these transactions may include the following:

Swaps

Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Currency swaps* involve exchange of currencies at specific prices and dates. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps,* one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

Options

Options are agreements in which the writer (or the seller) of the option grants the buyer the right, but not the obligation, to buy or sell a specific amount of a currency, commodity or financial instrument at a price agreed upon when the options are arranged. The writer receives a premium for selling this instrument.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

	2002			2001		
	Positive	Negative	Net amount	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap contracts	$ 4,355	$ 8,521	$ (4,166)	$ 7,385	$ 21,199	$ (13,814)
Equity-linked swap contracts	68,670	65,554	3,116	70,854	41,391	29,463
Forward rate agreements	85	1,597	(1,512)	295	14	281
Cross-currency interest rate swap contracts	8,159	24,867	(16,708)	65,402	26,649	38,753
Currency forward contracts	4,871	5,578	(707)	34,747	—	34,747
Total fair value	$ 86,140	$ 106,117	$ (19,977)	$ 178,683	$ 89,253	$ 89,430
Less impact of master netting agreements	60,410	60,410	—	56,812	56,812	—
Total	$ 25,730	$ 45,707	$ (19,977)	$ 121,871	$ 32,441	$ 89,430

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Counterparty Credit Risk Exposure	Counterparty Ratings			
	AAA	AA- to AA+	A to A+	Total
Gross positive replacement cost	**$ 48**	**$ 79,547**	**$ 6,545**	**$ 86,140**
Impact of master netting agreements	**(48)**	**(58,395)**	**(1,967)**	**(60,410)**
Replacement cost (after master netting agreements)	**$ —**	**$ 21,152**	**$ 4,578**	**$ 25,730**
Replacement cost (after master netting agreements)—2001	$ 39,164	$ 78,382	$ 4,325	$ 121,871
Number of counterparties				
March 31, 2002	**1**	**9**	**4**	
March 31, 2001	3	9	3	

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								2002		2001	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Interest rate contracts												
$CDN payable — fixed	$ 71,300	4.87	$ 32,297	5.71	$ 47,195	5.58	$ —	—	**$ 150,792**	**$ —**	$ 319,993	$ —
$CDN receivable — fixed	138,359	4.90	—	—	—	—	152,800	5.62	**291,159**	**2,612**	552,530	5,295
Basis swaps	150,000	n.a.	—	—	—	—	—	—	**150,000**	**156**	1,015,000	426
Equity-linked swap contracts	53,859	n.a.	188,500	n.a.	412,129	n.a.	517,499	n.a.	**1,171,987**	**68,670**	557,239	70,854
Other contracts	23,000	n.a.	—	—	18,812	n.a.	15,647	n.a.	**57,459**	**1,587**	22,195	1,664
	436,518		220,797		478,136		685,946		**1,821,397**	**73,025**	2,466,957	78,239
Forward rate agreements	1,400,000	—	—	—	—	—	—	—	**1,400,000**	**85**	240,000	295
Cross-currency interest rate swap contracts	24,950	n.a.	43,585	n.a.	25,104	n.a.	502,529	n.a.	**596,168**	**8,159**	904,877	65,402
Total interest rate contracts	1,861,468	—	264,382	—	503,240	—	1,188,475	—	**3,817,565**	**81,269**	3,611,834	143,936
Foreign exchange contracts												
Currency forward contracts	2,009,089	n.a.	—	—	—	—	—	—	**2,009,089**	**4,871**	952,077	34,747
Total foreign exchange contracts	2,009,089	—	—	—	—	—	—	—	**2,009,089**	**4,871**	952,077	34,747
Total	$3,870,557	—	$264,382	—	$503,240	—	$1,188,475	—	**$5,826,654**	**$ 86,140**	$4,563,911	$ 178,683
Less impact of master netting agreements	—	—	—	—	—	—	—	—	**—**	**60,410**	—	56,812
Total	$3,870,557	—	$264,382	—	$503,240	—	$1,188,475		**$5,826,654**	**$ 25,730**	$4,563,911	$ 121,871

n.a. — not applicable or weighted rates are not significant.

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent.

16. CONTINGENT LIABILITIES AND COMMITMENTS

As at March 31, 2002:

(a) various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that the aggregate liability resulting from these proceedings will not be material.

(b) the undisbursed amounts on loans authorized total $748,938. These loan commitments are for an average period of three months ($71,176 in fixed, $677,762 in floating). The effective interest rates on these loan commitments vary from 4.25% to 20.0%. The undisbursed amounts on authorized venture capital investments total $66,887.

(c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

2003	$ 17,270
2004	16,890
2005	16,594
2006	15,716
2007	14,193
2008 - 2020	101,098
	$ 181,761

17. EMPLOYEE FUTURE BENEFITS

The Bank maintains defined benefit pension plans (the "Pension Plans") for eligible employees, which provide post-retirement benefits based on number of years of service and average final pay. The Bank also provides life insurance and health care benefits for eligible retirees, as well as other employee and retiree benefits (the "Other Plans").

17. EMPLOYEE FUTURE BENEFITS (continued)

Pension and other post-retirement expense is included in Salaries and Staff benefits and is as follows:

	Registered Pension Plan		Supplemental Pension Plans		Other Plans	
	2002	2001	**2002**	2001	**2002**	2001
Plan expense (credit)						
Current service cost	**$ 12,501**	$ 10,024	**$ 909**	$ 519	**$ 2,653**	$ 2,191
Interest cost on benefit obligation	**24,662**	22,733	**1,871**	1,361	**4,785**	4,554
Expected return on plan assets	**(37,258)**	(35,025)	**(190)**	(216)	**—**	—
Amortization of transitional obligation (asset)	**(13,441)**	(13,441)	**(267)**	(267)	**315**	315
Amortization of net actuarial loss	**—**	—	**497**	—	**2**	19
Curtailment loss	**—**	—	**—**	—	**765**	—
Expense (credit) for the year ended March 31	**$ (13,536)**	$ (15,709)	**$ 2,820**	$ 1,397	**$ 8,520**	$ 7,079

The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered Pension Plan		Supplemental Pension Plans		Other Plans	
	2002	2001	**2002**	2001	**2002**	2001
Change in accrued benefit obligation						
Balance at beginning of year	**$ 348,124**	$ 309,057	**$ 26,057**	$ 18,356	**$ 68,271**	$ 61,672
Current service cost	**12,501**	10,024	**909**	519	**2,653**	2,191
Interest cost on benefit obligation	**24,662**	22,733	**1,871**	1,361	**4,785**	4,554
Benefits paid	**(15,780)**	(15,911)	**(390)**	(403)	**(2,015)**	(1,921)
Actuarial (gain) loss	**(8,568)**	22,221	**1,414**	6,224	**901**	1,775
Balance at end of year	**360,939**	348,124	**29,861**	26,057	**74,595**	68,271
Change in fair value of plan assets						
Balance at beginning of year	**$ 474,038**	$ 445,481	**$ 3,943**	$ 4,084	**$ —**	$ —
Employee contributions[1]	**167**	35	**—**	—	**—**	—
Employer contributions	**—**	—	**131**	145	**398**	461
Actual return on plan assets during the year	**(5,891)**	44,433	**143**	117	**—**	—
Benefits paid	**(15,780)**	(15,911)	**(390)**	(403)	**(398)**	(461)
Balance at end of year	**452,534**	474,038	**3,827**	3,943	**—**	—
Surplus (deficit) at end of year	**$ 91,595**	$ 125,914	**$ (26,034)**	$ (22,114)	**$ (74,595)**	$ (68,271)
Employer contributions after December 31	**—**	—	**34**	20	**92**	150
Unamortized transitional obligation (asset)[2]	**(87,368)**	(100,809)	**249**	(17)	**2,169**	3,249
Unamortized net actuarial loss	**47,192**	12,778	**7,282**	6,324	**2,367**	1,756
Accrued benefit asset (liability) at end of year[3]	**$ 51,419**	$ 37,883	**$ (18,469)**	$ (15,787)	**$ (69,967)**	$ (63,116)

1 *Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized.*

2 *Transitional balances as at April 1, 2000 and past service costs from amendments to the plans are amortized on a straight-line basis over the active employees' expected average remaining service life. The active employees' expected average remaining service life under the Pension Plans ranges from 6.8 years to 8.5 years. The expected average remaining service life of the active employees covered by the Other Plans is 13 years for all but one of the plans, in which case it is 8.5 years.*

3 *Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate*

17. EMPLOYEE FUTURE BENEFITS (continued)

Included in the preceding accrued benefit obligation and value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	Supplemental Pension Plans		Other Plans	
	2002	2001	**2002**	2001
Fair value of plan assets	**$ 3,827**	3,943	**$ —**	$ —
Accrued benefit obligation	**29,861**	26,057	**74,595**	68,271

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations (weighted averages) are as follows:

	Registered Pension Plan		Supplemental Pension Plans		Other Plans	
	2002	2001	**2002**	2001	**2002**	2001
Significant actuarial assumptions						
Discount rate at beginning of year	**7.00%**	7.30%	**7.00%**	7.30%	**7.00%**	7.30%
Discount rate at end of year	**6.70%**	7.00%	**6.70%**	7.00%	**6.70%**	7.00%
Expected long-term rate of return on plan assets[1]	**8.00%**	8.00%	**5.00%**	5.00%	**—**	—

[1]*The expected long-term return on plan assets is calculated using assets valued at fair market value.*

The average rate of compensation increase is expected to be inflation which is assumed to be 3.25% (in 2001, 3.75%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to increase with inflation, plus a further increase of 3.0% in 2003 graded down by 0.5% each year to 1.5% for 2006 and subsequent years (in 2001, an increase of 3.5% for 2002 graded down by 0.5% each year to 1.0% for 2007 and subsequent years).

18. RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

19. SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into the business segments of Loans, Venture Capital and the Consulting Group. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income consistent with the practice in previous years.

20. COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform with the presentation adopted in 2002.

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OPERATIONAL STATISTICS for the year ended March 31 *($ in thousands)*	**2002**	2001	2000	1999	1998
FINANCIAL SERVICES					
Total financing committed as at March 31					
Amount	**$ 7,201,678**	$ 6,353,362	$ 5,641,379	$ 5,090,228	$ 4,586,083
Number of customers	**21,016**	19,884	18,807	17,923	17,414
Committed to lending customers as at March 31					
Amount	**$ 6,827,489**	$ 6,057,285	$ 5,446,309	$ 4,933,237	$ 4,461,411
Number of customers	**20,861**	19,753	18,708	17,833	17,335
Committed to investment customers as at March 31					
Amount	**$ 374,189**	$ 296,077	$ 195,070	$ 156,991	$ 124,672
Number of customers	**155**	131	99	90	79
Total financing authorized					
Number	**6,519**	6,519	6,412	6,082	5,815
Net amount	**$ 1,848,109**	$ 1,652,076	$ 1,435,288	$ 1,271,937	$ 1,234,968
Lending authorized					
Number	**6,456**	6,448	6,350	6,035	5,773
Net amount	**$ 1,742,088**	$ 1,537,914	$ 1,372,492	$ 1,230,130	$ 1,171,977
Investments authorized					
Number	**63**	71	62	47	42
Net amount	**$ 106,021**	$ 114,162	$ 62,796	$ 41,807	$ 62,991
FINANCIAL STATISTICS					
Net interest income as a percentage of average loan portfolio	**5.92%**	5.82%	5.56%	5.66%	5.67%
Provision for credit losses as a percentage of average loan portfolio	**1.7%**	2.0%	2.0%	1.4%	1.3%
Operating and administrative expenses as a percentage of average loan portfolio	**2.9%**	3.1%	3.0%	3.2%	3.0%
Loan operations productivity ratio	**48.5%**	52.6%	54.7%	57.4%	53.3%
CONSULTING GROUP					
Revenue from activities	**$ 18,189**	$ 17,724	$ 19,396	$ 17,823	$ 21,458

Five-year operational and financial summary

FINANCIAL INFORMATION

($ in thousands)

	2002	2001	2000	1999	1998
STATEMENT OF INCOME					
for the year ended March 31					
Net income (loss)					
Loans	**$ 80,458**	$ 37,254	$ 25,320	$ 42,124	$ 50,737
Venture Capital	**$ (20,977)**	$ 56,168	$ 80,039	$ (4,124)	$ 4,217
Consulting Group	**$ (5,748)**	$ (5,100)	$ (4,254)	$ (5,216)	$ (9,480)
Net income	**$ 53,733**	$ 88,322	$ 101,105	$ 32,784	$ 45,474
BALANCE SHEET					
as at March 31					
Loans, net of allowance for credit losses	**$ 5,669,513**	$ 5,054,254	$ 4,608,188	$ 4,248,745	$ 3,838,305
Venture capital investments	**$ 271,064**	$ 206,360	$ 145,107	$ 110,298	$ 70,046
Total assets	**$ 6,897,204**	$ 6,225,518	$ 5,666,333	$ 5,098,461	$ 4,587,989
Total shareholder's equity	**$ 960,320**	$ 923,304	$ 783,826	$ 583,832	$ 507,058
Total liabilities	**$ 5,936,884**	$ 5,302,214	$ 4,882,507	$ 4,514,629	$ 4,080,931
Average loan portfolio	**$ 5,749,376**	$ 5,194,279	$ 4,736,601	$ 4,281,607	$ 3,855,662

BDC services in brief

BDC is structured to offer a variety of flexible and specialized financial products, as well as consulting services to help Canadian small businesses grow and successfully compete in an ever-changing global environment. The Bank's philosophy is to listen and respond to the needs of entrepreneurs with timely and relevant business solutions.

BDC Financial Services

The Bank provides a wide range of term loans with flexible repayment conditions. BDC supports companies at every stage of their growth in almost every sector of the economy. The Bank is very active in the manufacturing and tourism sectors, and maintains a particular focus on knowledge-based and exporting industries. BDC also responds to the particular needs of growing target markets, such as women, Aboriginal and young entrepreneurs.

Subordinate financing of up to $250,000 is offered to growing businesses with promising market niches. This form of higher-risk financing falls between debt and equity.

BDC Investment Group

BDC Investment Group offers venture capital and subordinate financing. The Venture Capital team provides equity to early-stage high-technology companies that have a clear vision of their market and excellent growth potential, and are export-oriented. The Subordinate Financing team offers quasi-equity loans for cash flow financing needs of fast-growing and more mature small businesses.

BDC Consulting Group

Through its national network of private sector consultants, BDC Consulting Group offers small business entrepreneurs affordable, customized and effective solutions to enhance their management skills. It also helps entrepreneurs assess, plan and implement winning strategies, especially in the areas of growth, quality, export and e-business. BDC Consulting Group provides solutions that enable growth-minded businesses to take their place in the world economy.

BDC Connex®

BDC Connex® offers its clients the entire range of BDC's financial products online, such as the Global Line of Credit® and the Student Business Loans program. This virtual branch is readily accessible to small businesses wishing to be informed about BDC products and services, as well as to do business online.

Ce document est aussi disponible en français.

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Business Development Bank of Canada
BDC Building
5 Place Ville Marie
Suite 400
Montreal, Quebec H3B 5E7
1 888 INFO-BDC (1 888 463-6232)
www.bdc.ca

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BDC Innovating
with clients, one on one

2003 Annual Report

BDC
Business Development Bank of Canada
Banque de développement du Canada

Canada

Our Mission

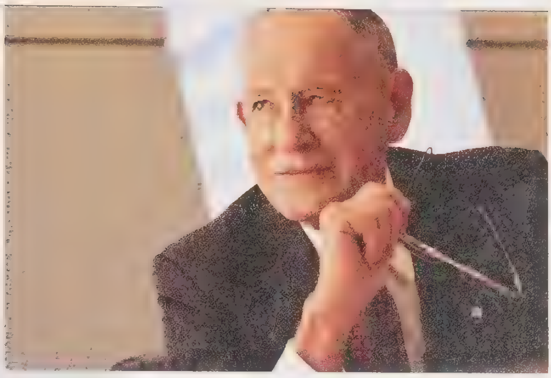
To help create and develop Canadian small and medium-sized businesses through timely and relevant financial and consulting services.

Our Vision

To make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

Our Key Services

Financial services (term financing); subordinate financing; venture capital; consulting services and BDC Connex® (financial products online).



Cedric E. Ritchie
Chairman of the Board

Chairman's Message

Looking back over the last year, there is no question that growth at the Business Development Bank of Canada was the highlight. To have achieved the $2 billion mark in authorizations for the first time in the Bank's history was truly a great accomplishment and ensured another profitable year. With a profit of $32 million the Bank will pay a dividend of $12 million to the Government of Canada. Over the last three years, BDC will have returned $43 million to its shareholder. Another milestone year begs the question— how and why?

BDC is beginning to realize the benefits of its recent growth strategies. Three years ago, the senior management team set out to broaden its base across the country. The goal was to make BDC's services as a complementary lender better known and to have these services used more widely in parts of the country, where, frankly, the Bank had not been that well-known in the past. The mission is proceeding well.

There has been steady growth in Ontario, British Columbia and Atlantic Canada. The turnaround in Nova Scotia was particularly satisfying and it shows how time, effort and perseverance can pay off. It takes about three years to see the difference but Nova Scotia proves it can be done.

BDC believes that it can continue to broaden its base. I agree. Just look at the potential in Alberta, for example. Entrepreneurs there are very dynamic and there are more of them per square mile than anywhere else in the country. BDC knows there are many small business entrepreneurs in Alberta who can benefit from a different kind of lender, geared to the needs and interests of small and medium-sized businesses. To help reach these business people, BDC has opened new branches in Calgary and Edmonton.

Much is said about BDC being there to fill the gaps. Let's remember BDC serves Canada's smaller entrepreneurs, many of whom are undercapitalized and yet can grow if they can find the financing. It's one of the important gaps BDC fills, sometimes alone and sometimes in partnership with other financial institutions, but the important point is that there is a need. There is also a need for BDC's consulting service, which small and medium-sized businesses can both use and afford. In fact, I believe if BDC didn't exist the Government of Canada would have to invent it.

There are many small businesses across Canada that need a longer term lender. A majority of Canadian financial institutions do not offer 15-year commercial loans. BDC does. BDC recognizes the value of high-tech and knowledge-based industries, which have few tangible assets. BDC understands the necessity of taking risks on start-up companies.

Another important role BDC plays is in venture capital, where there is a definite shortage of investment money for small businesses and start-ups. It is vital for BDC to fill this gap. It is important for the Canadian economy.

Now, clearly, this was not a good year for Venture Capital. Let's not forget that, by definition, it's a risky business that cannot be judged fairly on a yearly basis. I am confident that it's a matter of time before there is improvement and I think it is essential BDC continue its focused approach in investment in all parts of the country. It is also important that BDC continue to extend its venture capital expertise across the country.

I would like to take this opportunity to pay tribute to my colleagues on the Board. As we know, the issue of corporate governance is more important than ever to maintain the credibility of an organization. Our Board has shown itself to be dedicated to and vigilant advocates of these principles. I would also like to thank the outgoing members, Peter G. Jollymore and Roger Plamondon, for their remarkable contribution.

As Chairman of the Board and someone with a history in the private sector, I must say it takes time to get used to having only one shareholder. But I have every reason to believe the Government of Canada is pleased. BDC is fulfilling its public policy mandate. I continue to be proud to be part of it.

Cedric E. Ritchie
Chairman of the Board

Michel Vennat
President and Chief Executive Officer

President's Message

It was a remarkable year. Canadian entrepreneurs showed the world how small and medium-sized businesses can make a national economy shine. Canadian SMEs have become the spark plug for our economy. They are the reason Canada has taken the lead in economic performance among G-7 countries and why we have outperformed the U.S. economy over the last two years.

As I travel the country, I am witness to a surge of entrepreneurship in all regions, across all sectors of the economy. Indeed, businesses are starting and growing across the country. The business people who run them come from all walks of life and in many cases from all over the world. We should never underestimate the contribution of entrepreneurs who have recently come to this country with their own ideas about entrepreneurship. They have much to show us and we are grateful for the new perspective they bring. Without question, in the last year, the growth of small and medium-sized businesses helped Canada lead the way.

Commenting on the Bank's results is, of course, easy, compared to predicting what could happen in the coming year. A higher Canadian dollar, the unpredictable U.S. economy, the long-term effects of the war in Iraq and the recent SARS outbreak here in Canada all make for increased uncertainty. The excellent performance of our economy notwithstanding, we have reason to be cautious as we look forward.

Just over a year ago, Parliament renewed our mandate as a complementary lender and we work hard to fulfill that mandate. BDC often works in partnership with other financial institutions to help business people meet their needs. Increasingly, other financial institutions refer their clients to BDC. We see ourselves as an economic instrument that is there to fill the gaps.

Over the past year, BDC has innovated and we are confident our clients are the winners. Our objective was to personalize our banking by doing away with formulas as much as possible. We adopted a strategy of giving our people more time to spend with our clients so that we can be much better long-term partners in their businesses. To be closer to our clients, we have also decentralized operations. Ninety-five percent of our credit decisions are now made at the regional level.

BDC remains the only financial institution that has a consulting service across the country. We have rationalized our services so we are better able to show our clients how and when we think our consulting service can make a difference. We really do believe in flexible banking and tailor-made solutions. We know this will be particularly helpful to start-up companies. We can now better understand our clients' needs and offer faster and more flexible service. Our goal is to provide entrepreneurs with the services and products that will enable them to improve their productivity. While there are many reasons innovation is more important than ever, paramount among them is the rising Canadian dollar. Improving productivity is key to adapting to the changing landscape.

Our renewed approach has led to a 91 percent customer satisfaction rating, which is the best in the industry. Our productivity ratio is an impressive 48 percent. BDC is doing a lot of things right—we had a milestone year.

I'm proud to report BDC set a new record, hitting the $2 billion mark in authorizations. To put that in perspective, it took BDC more than 50 years to reach the $1 billion mark and only 5 years to make it to $2 billion. Our Loans sector showed a profit of $94 million. Lending authorized was 17 percent higher than last year, and last year was 13 percent better than the year before. That's 33 percent more support for small and medium-sized businesses in the last two years.

The combination of the dynamic nature of our organization and the dynamic nature of our niche market—the entrepreneur—makes for an exciting mix and terrific growth potential. Today's entrepreneurs

are a special breed; they are better educated and more open to seeking opportunity globally. They see the world not as a challenge but as an opportunity and they know that low interest rates, lower taxes and freer trade give them a better chance to excel and compete globally.

The quality of our client base has remained strong. Client credit has held up well in this environment. The return on common equity from Loans and Consulting Group was a solid 16 percent, permitting us to continue to be even more active in start-ups, which is the more risky part of our business. BDC will continue to take more risk progressively. That's our mandate and we take it seriously.

BDC showed an overall profit in fiscal 2003 of $32 million and declared a dividend of $12 million to our shareholder, the Government of Canada. Obviously the bottom line would have been much better had it not been for a $59.5 million loss in Venture Capital. It was a difficult year in a difficult environment.

Technology markets suffered for a second year in a row and we had to take a lot of write-downs in the value of investments. However, despite this year's losses, our 10-year internal rate of return on total investments is 16 percent in fiscal 2003, which is still an above-average performance.

BDC, as a recognized leader in venture capital, is even more important in difficult times. That role was recognized in the February budget when the federal government allocated $190 million to BDC, earmarked for venture capital investment. BDC expects its venture capital investments to be approximately $100 million a year over the next four years.

I am encouraged that employees in all sectors of the Bank are engaged, enthusiastic and effective. Employee engagement surveys are taken very seriously at BDC. If employees are as motivated as they are, it is because they know someone is listening. Members of the senior management team deserve full credit for creating and encouraging that openness with employees. They know, as I do, that it's just good business.

Overall, we feel good about the year we've had and we are hopeful we can sustain our momentum and continue to move forward despite the economic challenges we face this year. The financial services landscape will continue to change and there will continue to be gaps. More than ever, BDC will be needed to fill those gaps.

The optimism and the enthusiasm of small and medium-sized businesses are helping Canada meet the challenges of a world economy, which has become unpredictable due to momentous international change. To be frank, a lot of things can happen and a lot of things can go wrong that could have a negative impact on our economy, but at least we know we will face an uncertain world from a position of new strength.

With the changes BDC has made in the past year it is far better equipped to respond to local and regional needs and I see more, not less, demand for our services in the future. We will be there for our clients. We will be there for the Canadian economy.

Michel Vennat

Michel Vennat
President and Chief Executive Officer

The Business Development Bank of Canada will celebrate its 60th birthday next year with the distinction of being the only bank in Canada that focuses exclusively on small and medium-sized businesses. BDC's mission is to help create and develop small and medium-sized business through timely and relevant financial and consulting services. BDC's role is to help Canadian entrepreneurs become more successful so they can create more wealth and more jobs in every region of the country.

Through its Loans unit (Loans), BDC has, in the last five years, almost doubled its loan authorizations, which is an indication of the gaps BDC is filling in the marketplace. These gaps were identified by Parliament in 1995 when it approved a new mandate for the Crown corporation, namely in regard to risk, flexibility, size and knowledge gaps. As a result BDC provides high-risk financing, offering flexible terms and conditions for small and medium-sized businesses as well as financing for knowledge-based industries. Just over a year ago Parliament renewed BDC's mandate as a complementary lender. BDC continues to work hand in hand with other financial institutions in the interests of Canadian entrepreneurs.

In offering these services BDC fulfills another mandate from Parliament. It earns a profit and has the objective of earning a return on common equity that is at least equal to the government's long-term cost of funds. This year the Bank declared a dividend of $12.2 million to the Government of Canada. Profit was $32 million while the return on common equity was 2.7 percent.

BDC is appropriately capitalized with total assets of close to $8 billion. The Bank has over 1,250 employees and more than 80 branches. The Bank serves more than 21,000 Canadian small and medium-sized businesses and 35 to 40 percent of them are in non-metropolitan areas. Close to 70 percent of loans authorized are under $250,000. The customer satisfaction rate is 91 percent, the best in the Canadian financial services industry.

Through its Consulting Group unit (CG), BDC is the only financial institution in the country that offers a network of consulting services throughout Canada. BDC believes that providing affordable consulting advice is key to helping entrepreneurs grow and innovate their businesses. Through its Venture Capital unit (VC), BDC is the only national financial institution with VC offices and expertise in every region of the country. Including direct investments and venture funds, the Bank now has a total of $430 million in venture capital committed to some 160 Canadian companies.

BDC not only believes in social responsibility—it practices it. Consider the environment. Loans are subject to environmental conditions being met. Clients must provide details of all environmental concerns related to each property and business activity. On request they must provide environmental assessments to ensure compliance with environmental legislation. BDC managers inspect work sites in person with an eye to identifying potential environmental risks. Where there is an environmental issue that cannot be resolved by the client, financing will not be provided.

BDC wants to help Canadian entrepreneurs prepare for implementation of the Kyoto Protocol by first and foremost encouraging clients to be energy efficient. However, the Bank's role and interest is not restricted to compliance. BDC encourages clients in the high-technology sector to develop and deliver new environmental technologies that meet the emerging compliance requirements of Canadian business.

BDC is active in communities in Canada. The Bank supports local teams and sporting events for young Canadians. This year BDC sponsored the Pan Canadian Conference of the Community Futures Network. Held in St. John's, the Conference invited 270 Community Futures Development Corporations and Community Business Development Corporations to celebrate community-based economic innovations. This fall the Bank will sponsor the International Chamber of Commerce Conference in Québec City. BDC supports Innovators Alliance, which is a not-for-profit networking organization for CEOs in the fastest-growing companies.

Over the last two years the Bank has made great strides in decentralizing decision-making. Approximately 95 percent of loans are now authorized at the regional level. This makes for quicker, more responsive solutions for clients. BDC has also created a three-region network, which, along with the virtual online branch BDC Connex®, enhances community-based services to clients.

Almost 60 years after its inception in 1944, (then under the name of *Industrial Development Bank*) the Business Development Bank of Canada (officially created in 1974) has come a very long way.

It is no longer the *Industrial Development Bank*, it is no longer the *Federal Business Development Bank* and it is certainly no longer the "bank of last resort". It is now a commercial Crown corporation offering complementary financial, investment and consulting solutions to Canadian entrepreneurs.

Those who work at BDC are proud of the contribution made to the country. They are also proud of the steady growth over the last several years. There is recognition of an important public policy role being carried out. But in addition there's the heartfelt sharing of the dreams of entrepreneurs coupled with the good business sense to help their businesses grow and prosper.

Economic Background

The past year saw many challenges in the global economic environment. Economic growth turned out to be weaker than expected in many industrialized countries. The decline in equity markets, the impacts of damaged corporate reputation in the United States and anxieties over global terrorism contributed to the level of uncertainty worldwide.

In this turbulent global situation, Canada's economic growth in 2002 exceeded most expectations. Emerging from the slowdown and unsettled environment of 2001 into a solid recovery, the Canadian economy outpaced the United States and other G7 countries in both gross domestic product (GDP) and employment growth. The Canadian economy posted strong growth of 3.4 percent in 2002, more than double the pace in 2001. In fact, the level of economic activity in Canada remains near full production capacity with a record high employment-to-population ratio, corporate profits at their highest since early 2001, and the consumer price index remaining under control at just under 2.2 percent.

Stimulated by low interest rates and record employment growth, the Canadian consumer was able to make up for ground lost in the mid-1990s. In February, the federal government tabled a fifth consecutive balanced budget, largely implementing the recommendations of the Romanow Report on the future of health care in Canada and launching an effort to meet the objectives of the Kyoto Accord.

In Canada, the number of small businesses increases by 1 to 2 percent each year. Typically, 150,000 new firms are created and 130,000 close annually. However, statistics alone do not capture the dynamic nature of small business. Small businesses are changing their primary activity or ownership in order to remain competitive, a phenomenon that will only accelerate in the future. Small businesses need to reinvent themselves more frequently because today's competitive advantage will become tomorrow's common knowledge. In addition, the importance of export-orientation in a small firm, to maintain competitive advantages in the global arena, should not be overlooked.

Economic conditions continue to improve for SMEs. Large and medium-sized businesses are doing well in adopting advanced technologies, but there is room for improvement, particularly among small, domestic-owned firms. For a small business, innovation is not just about developing new products and selling them to the world. To stay competitive, smaller firms also need to adopt other innovations from wherever in the world they originate. Recent findings of a Statistics Canada Survey of Innovation underscore the difficulty small businesses have in adopting innovation and improving productivity. The major impediments to innovation cited were lack of financing, high cost of development, lack of skilled personnel and inability to devote staff to projects on an ongoing basis.

As Canada's *small business bank,* there is a key role for BDC to play in the enhancement of innovation in small firms. BDC can be a strong contributor to Canada's innovation capacity, by being innovative, by helping entrepreneurs realize their own potential and by building on current success and entrepreneurial expertise.

Given the current economic context, it is vital for BDC to create a unique and valued relationship with Canadian entrepreneurs to support their business creation and accompany their growth. As small businesses adapt to increasing competition and technological change, not all will be able to secure private sector sources of value-added financing and consulting advice. BDC will therefore continue to complement the services of commercial financial institutions by seeking new and different forms of financing and to help entrepreneurs access and benefit from new technologies in traditional and emerging sectors.

OVERVIEW OF THE STRUCTURE OF MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) of operating and financial results provides Management's perspective on BDC's performance for fiscal 2003, risk management activities, and outlook for 2004.

Objectives, Measures and Targets (pages 7 and 8) provides a summary of the corporate objectives established in the annual Corporate Plan and the key performance indicators which are used to measure performance and results for fiscal 2003, and objectives for 2004. These measures are reviewed in more detail in subsequent sections of this MD&A, as shown below.

Our Clients (page 9) addresses the market needs which are being served by BDC, the diversity of our clientele, and how we help Canada's small and medium-sized businesses with faster and more flexible service. Successful performance is measured by growth and **customer satisfaction.**

Employee Commitment (page 10) provides an overview of the Bank's greatest asset—its employees. It shows how the Bank fosters a culture of employee engagement and customer service that in turn make the Bank a more efficient and cost-effective institution. The **employee commitment** rating serves as the principal performance measure.

Financial Statement Discussion (pages 11-16) provides an in-depth analysis of the balance sheet and the results presented in the statement of income (pages 22-23) with reference to the five other performance measures:

Productivity
Portfolio growth
Consulting Group revenue
Return on common equity
Venture Capital IRR

This discussion includes the contribution of each of the three business areas: Loans, Consulting Group, and Venture Capital, and explains the significant accounting policies and the effects these policies have on our results.

Integrated Risk Management (pages 17-20) summarizes the risk management activities in the organization and discusses our approach to managing credit, markets, liquidity and operational risks.

Caution Regarding Forward-Looking Statements

The MD&A that follows this page includes forward-looking statements and assumptions, based on Management's best estimates. Such statements are subject to risks and uncertainties which may cause actual results to differ materially from those estimates. Some of the factors which could cause such differences include general economic and market conditions, including interest rates and currency values, and performance of venture capital investments.

How the Bank Reports

BDC is governed by the *Business Development Bank of Canada Act* of 1995, and being a Crown corporation, by Part X of the *Financial Administration Act*.

The Bank prepares its financial statements which are presented on pages 21-39 of this report in accordance with Canadian generally accepted accounting principles (GAAP).

To finance its activities, the Bank issues debt instruments which are secured by the Government of Canada, and from time to time receives equity infusions from the Government as its sole shareholder. The Bank does not require nor receive operating appropriations of Government funds.

OBJECTIVES, MEASURES AND TARGETS

Mandate

To support Canadian entrepreneurship by providing financial and consulting services.

Corporate Objectives

To create a unique and valued relationship with Canadian entrepreneurs to support the creation of their businesses and accompany their growth (measured by client satisfaction).

To foster a culture of engagement, learning and growth (measured by employee commitment).

Establish effective and efficient processes to support local market understanding (measured by the Loans productivity ratio).

Be profitable in order to grow while fulfilling our public policy mandate (through the measures of the outstanding loan portfolio, internal rate of return (IRR) of Venture Capital, and Consulting Group revenue).

Generate a return on common equity (ROE) at least equal to the government's long-term cost of funds.

The following table illustrates how the corporate objectives are measured at BDC.

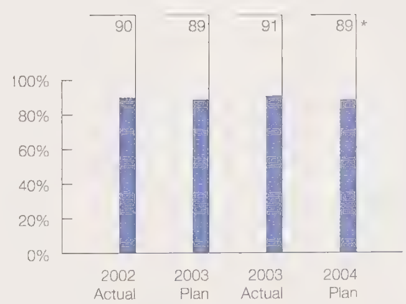
	2003	2003
Performance Measures	Objectives	Performance
Client satisfaction level	89%	91%
Employee commitment level	65%	76%
Productivity ratio	51%	48%
Outstanding loan portfolio	$ 6.5 billion	$ 6.7 billion
Consulting Group revenue	$19.0 million	$18.2 million
10-year IRR	25.0%	16.3%
Return on Common Equity (ROE)	5.5%	2.7%

PERFORMANCE AND CORPORATE OBJECTIVES

Performance

Client Satisfaction

- Valued relationships with the client fostered positive results in fiscal 2003: 91% of BDC clients are satisfied or very satisfied with the services offered versus 90% in fiscal 2002.

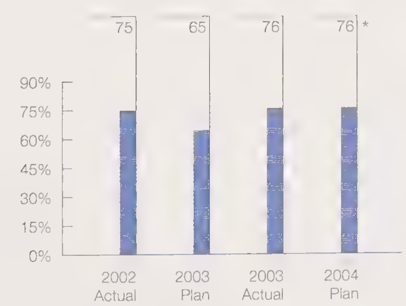


2004 Objectives

- * Client satisfaction: 86% as per Corporate Plan. This target was set before the actual 2003 results became known. Accordingly, a **new internal objective of 89%** has been set.
- In fiscal 2004, we will take more risk in our portfolio and use an integrated approach which we feel may initially decrease our client satisfaction.

Employee Commitment

- Results from the Employee Engagement Survey show an improvement to 76% from 75% in 2002, but it surpasses the 65% performance objective set for the year.

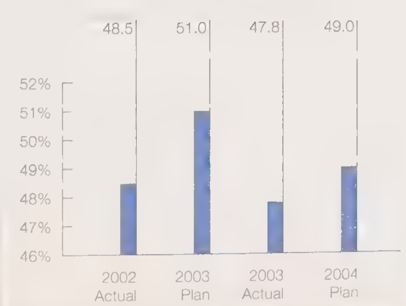


2004 Objectives

- * Employee commitment: 70%. This target was set before the actual 2003 results became known. Accordingly, a **new internal objective of 76%** has been set.
- Enhance and develop leadership.
- Foster open and honest communication.
- Promote self-motivated life-long learning and career development.
- Workforce diversity and differentiation in employee policies and programs.

Loans Productivity Ratio

- Full integration of new processes in the Loans division, system enhancements and a sound integrated risk framework supported BDC's efficiency gains over fiscal 2003, improving from 55% just 3 years ago to 48% (the lower the ratio, the higher the productivity achieved).



2004 Objectives

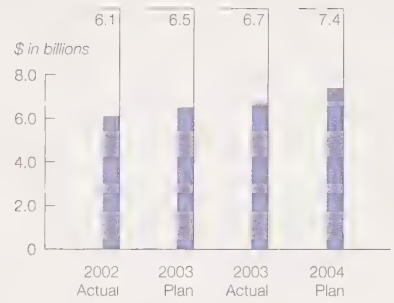
- Ratio: 49%
- Strive for productivity gains through ongoing refinements of internal processes, despite a projected increase of some $11 million in pension costs
- Use technology efficiently and update current technology applications

PERFORMANCE AND CORPORATE OBJECTIVES

Performance

Outstanding Loan Portfolio

A record $2 billion in net loan authorizations in fiscal 2003 supported the impressive growth in the portfolio which stood at $6.7 billion at the end of the fiscal year.

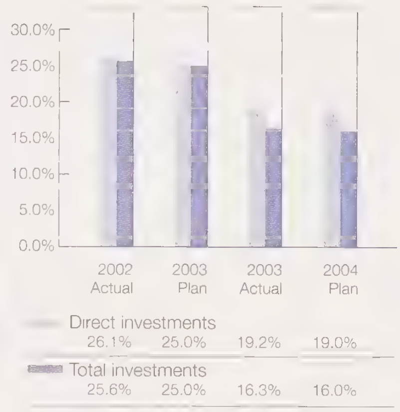


2004 Objectives

- Portfolio: $7.4 billion
- Increase financing activity through solutions that fuel the innovative capacity of Canadian entrepreneurs.
- Broaden the scope of subordinate financing activity to address the needs of high-growth companies, exporters, and intergenerational transfer of ownership.

Internal Rate of Return (IRR)—Venture Capital

The 10-year IRR was negatively affected in 2003 by weakened financial markets, which forced $50 million in write-downs during the year. The IRR on total investments was 16.3% in 2003 versus 25.6% in 2002.

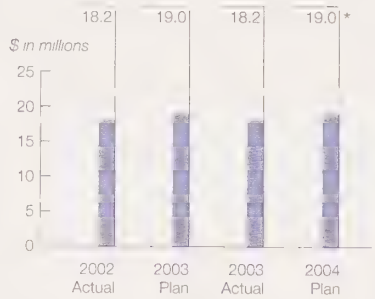


2004 Objectives

- Internal Rate of Return (IRR):
  Direct investments 19.0%
  Total investments 16.0%
- Seek seed investment opportunities in new technologies.
- Seek investment opportunities in the environment and life sciences such as biotechnology, genomics, medical devices, etc.

Consulting Group Revenue

- Consulting Group (CG) recorded revenues of $18.2 million, slightly lower than plan but similar to levels recorded in fiscal 2002.

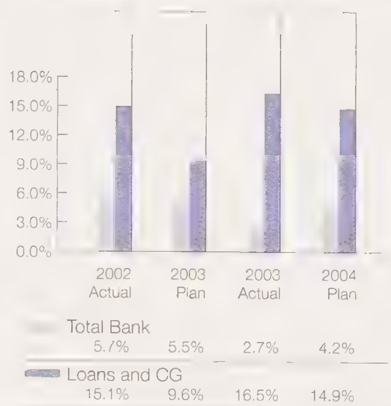


2004 Objectives

- * CG Revenue from activities: $16.5 million as per Corporate Plan. This target was set before the actual 2003 results became known. Accordingly, a **new internal objective of $19.0 million** has been set.
- Continue integration of service offering with financial services.

Return on Common Equity

- ROE of 2.7% was lower than last year's 5.7% due to loss experience in Venture Capital.
- ROE on Loans and CG was 16.5% in fiscal 2003 versus 15.1% in fiscal 2002.



2004 Objectives

- Generate a return on common equity at least equal to the government's long-term cost of funds (4.2%).
- ROE on Loans and CG is expected to remain in the 15% range.

CLIENTS

BDC strives to make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians. In the end, our *raison d'être* is to help Canadian entrepreneurs compete and prosper.

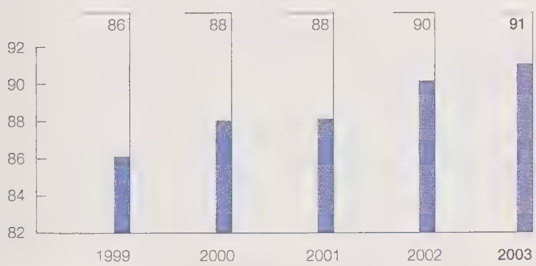
As a result of the demands of our customers, we streamlined our lending processes to better serve our clients. The new processes introduced last year made it possible for 95 percent of credit decisions to be made at the local level. They also gave account managers more time to devote to five key client experience points: visits and contact; annual financial review; interest rate adjustments; privileged postponements; and total repayment. The Bank constantly seeks new ways to improve its performance in meeting evolving customer needs.

The strong relationship that we enjoy with our clientele is demonstrated by our excellent client satisfaction ratio in the 90 percent range. This tells us that our customers are satisfied with what we do, and we will continue keeping decisions close to the client, spending more time with clients and ensuring frontline employees are specialized in handling client needs.

In fiscal 2004 we intend to assume a higher risk level in our portfolio, and this, coupled with the initial impact of the integrated approach, may adversely affect our client satisfaction rating from current levels.

Customer Satisfaction Level

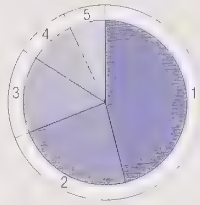
as at March 31 *(percentage)*



We authorized $2,032 million in loans in 2003, and 69 percent of the transactions were for loans less than $250,000. In order to further help these typically smaller sized companies, we reviewed what would better serve our clients. The answer was an integrated approach allowing account managers to deliver both financial and consulting services, to give our clients more than just money and to help develop their businesses and prosper.

Lending Authorized—Classification by Size

for the year ended March 31, 2003

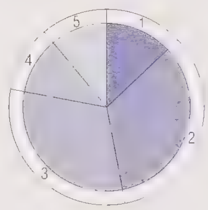


1	$100,000 or less	46%
2	Over $100,000 to $250,000	23%
3	Over $250,000 to $500,000	15%
4	Over $500,000 to $1,000,000	9%
5	Over $1,000,000	7%

BDC encourages increased investment by Canadian entrepreneurs so they can address the challenges they face each day in an increasingly complex and competitive world. As they explore new markets, not all will be able to secure private sector sources of value-added financing and consulting advice. BDC will be there to meet the needs of thousands of Canada's entrepreneurs by offering flexible solutions that will help them prosper.

Number of Lending Customers by Geographic Area

as at March 31, 2003

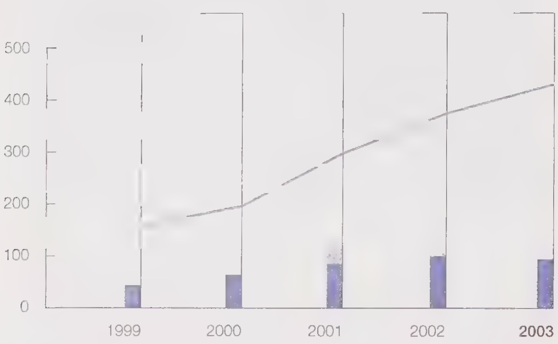


1	Atlantic Provinces	13%
2	Quebec	34%
3	Ontario	31%
4	Prairies, Northwest Territories and Nunavut	11%
5	British Columbia and Yukon	11%

The Venture Capital unit supports new ventures in high-tech fields such as medical technologies, telecommunications, information technology and advanced technology. Despite the difficult market conditions in 2003, BDC continued its commitment to provide financing to companies seeking venture capital. Our goal for the year was to fund $90 million in direct investments, and we achieved $93 million. In addition to its mandate to fund direct investments, the Bank is actively involved in the creation of a fund-of-funds. This private equity fund-of-funds will aggregate capital from a large number of private investors for investment in a diverse spectrum of companies.

Venture Capital Activities

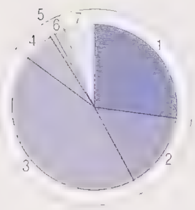
for the year ended March 31 *($ in millions)*



	1999	2000	2001	2002	2003
Direct investments authorized	42	63	84	98	**93**
Venture funds authorized	0	0	30	8	**0**
Total authorized	42	63	114	106	**93**
Total commitment as at March 31	157	195	296	374	**430**

Venture Capital Customers—Classification by Industry

as at March 31, 2003



1	Biotechnology/medical/health	27%
2	Electronics	15%
3	Communications and computer-related	43%
4	Industrial	6%
5	Energy	1%
6	Other industries	2%
7	Venture funds	6%

BDC Consulting Group with its employees and with its network of private sector consultants helps entrepreneurs in assessing, planning and implementing solutions to support their business growth.

The Group was involved in 3,625 projects during the year. Total revenue of $18.2 million remained at the same level as in fiscal 2002.

EMPLOYEE COMMITMENT

Since June 2000, BDC has sought the invaluable input of its employees to gain insight into which factors affect employee engagement. Feedback was captured from three different formal processes in fiscal 2003: the Employee Engagement Survey, employee follow-up focus groups and employee exit interviews. In response to the results obtained, a detailed action plan was developed.

Given that the success of any organization is highly dependent upon the quality of its leadership, BDC introduced a major development initiative to address both immediate and future leadership needs. The first phase of this initiative was the creation of the President's Leadership Forum to study the best approach to enhancing leadership competencies and effectiveness of employees. The second phase will result in the BDC Leadership Institute. The President's Award of Excellence program was also introduced, to recognize the dedication of employees who demonstrate excellence in their contributions to the success of BDC.

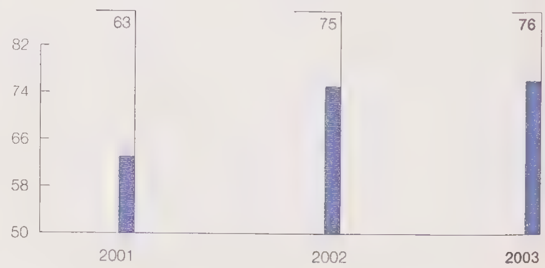
To respond to the need to develop and retain talent and foster a culture of learning and growth, BDC initiated the Career Management Process system that encourages self-assessment, learning and career development. The system enables employees to take an active role in their career progression and professional development all the while providing valuable information critical to the succession planning process.

Part of BDC's commitment is to provide training to its employees. The Bank spent approximately $5 million in fiscal 2003 on training, about 2.5 percent of its total expenses, which is consistent with previous years. We will continue to train our employees to ensure that we are able to meet the challenges of the rapidly changing business environment our employees face each day.

BDC needs to have the best players on its team to serve Canadian entrepreneurs. It also needs to offer a stimulating and enriching work environment. This was particularly significant this past year as the Bank reached the activity level of $2 billion in new loan authorizations. Progress was made on the employee engagement front, particularly in the area of leadership where focus was placed during the year. Results from the Employee Engagement Survey show an improvement to 76 percent from 75 percent in 2002, surpassing the 65 percent performance objective set for the year. The score also indicates that BDC is approaching the 79 percent average engagement score of the Fifty Best Companies to Work for in Canada 2003 study as published in the *Report on Business Magazine.*

Employee Commitment Level

for the year ended March 31 *(percentage)*



FINANCIAL STATEMENTS DISCUSSION

LOANS OPERATIONS

Net interest and other income is a function of the outstanding loan portfolio, and represents the gross margin earned by the Bank on those loans. The net portfolio increased 11 percent from $5.7 billion to $6.3 billion in 2003, while the gross margin of 5.8 percent of the average portfolio was marginally lower than the 5.9 percent earned in fiscal 2002, as the spread on floating rate loans declined slightly in 2003.

Portfolio growth is driven by disbursements of new authorized loans, less repayments and write-offs of existing loans.

The gross margin comprises the rates of interest charged to clients on individual loans, which reflect the Bank's cost of funds, plus risk adjustments, and administrative fees.

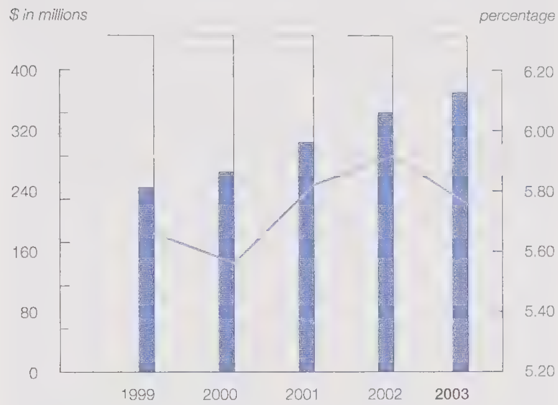
Loans are made to clients at either floating or fixed interest rates, at their option, with the fixed rates at time of commitment reflecting prevailing market rates. At March 2003, $4.8 billion of the performing loan portfolio produced interest income at floating rates averaging 7.5 percent (March 2002: 6.4 percent) while the remaining $1.6 billion was on a fixed basis with rates averaging 8.7 percent (March 2002: 8.8 percent). During the year, customers increasingly opted for the floating rate option to benefit from the lower prevailing rates.

The $6.7 billion of total loans outstanding are financed primarily by the Bank's borrowing activities on the open market, closely matching the borrowing terms and maturities with the lending activities.

Net interest and other income need to be sufficient to cover the provision for loan losses, and operating and administrative expenses, while generating enough net income to increase the capital base through retained earnings to support the Bank's future lending activities.

Loans Operations Net Interest and Other Income

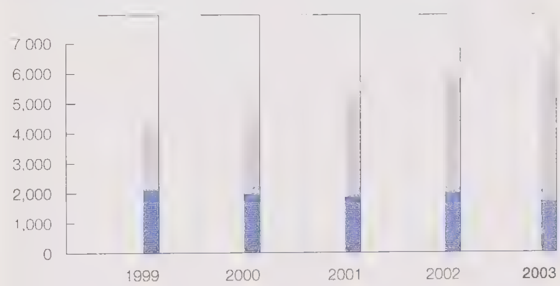
for the year ended March 31



	1999	2000	2001	2002	2003
Net interest and other income (value)	242.3	263.3	302.2	340.6	**368.9**
As a percentage of average portfolio	5.66%	5.56%	5.82%	5.92%	**5.76%**

Performing Loan Portfolio

as at March 31 *($ in millions)*



	1999	2000	2001	2002	2003
Fixed rate portfolio	2,089	1,931	1,857	1,949	**1,656**
Floating rate portfolio	2,161	2,737	3,283	3,854	**4,778**
Total performing loan portfolio	4,250	4,668	5,140	5,803	**6,434**

Allowance and Provision for Loan losses

The Bank's commitment to the small business sector, with emphasis on lending to start-up and early-stage businesses, increases the risk profile of the loan portfolio and therefore the probability of default on such loans. Accordingly, the Bank maintains the cumulative allowance for credit losses at a prudent level in recognition of the concomitant risks in the portfolio, and reflecting its long-term loan loss experience in the 6 to 7 percent range. The allowance of $427 million at March 31, 2003 was $26 million higher than last year, and represented 6.4 percent of the portfolio versus 6.6 percent a year previously.

The cumulative allowance comprises a specific allowance of $96 million which covers the net exposure from identified impaired loans, and a general allowance of $331 million which covers the exposure from the other loans in the portfolio at March 31, 2003. The general allowance represents 5.2 percent of the performing portfolio of $6.4 billion, in line with the ratio from a year ago.

Loan write-offs are charged to the specific allowance. During 2003, $73 million of loans were written off, compared to $49 million in 2002.

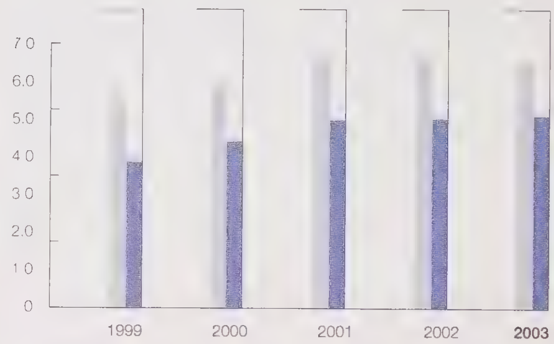
The allowance, net of write-offs, is the cumulative result of the provisions for credit losses. In fiscal 2003, provisions charged against income and credited to the allowance were $98 million versus $95 million in 2002. The $98 million provision represents 1.5 percent of the average outstanding portfolio.

Operating and Administrative Expenses

Loan operating and administrative expenses of $176 million were 7 percent higher than 2002, compared to an increase of 17 percent in authorizations, and 11 percent in the value of the net portfolio, thus providing a meaningful measure of the increase in employee productivity. During the year, operational improvements implemented were aimed at increasing productivity and customer service by task specialization. Staff levels were not increased during the year, which is significant because salary and benefit costs account for one half of the Bank's operating expenses.

Allowance for Credit Losses

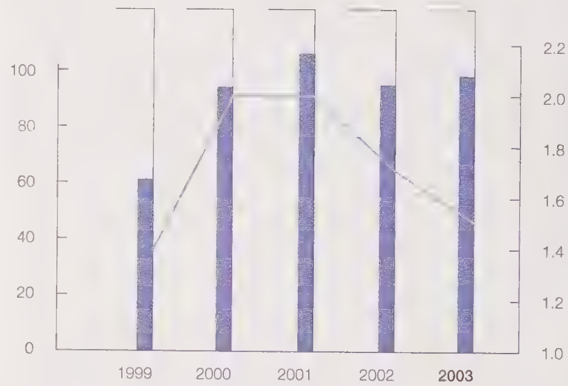
as at March 31 *(percentage)*



	1999	2000	2001	2002	**2003**
Total allowance as a % of total loan portfolio	5.6	6.0	6.6	6.6	**6.4**
General allowance as a % of performing loan portfolio	3.8	4.4	5.1	5.2	**5.2**

Provision for Credit Losses

for the year ended March 31

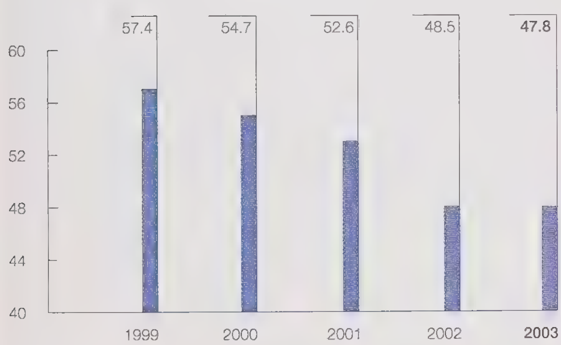


	1999	2000	2001	2002	**2003**
Provision for credit losses (value)	61	94	106	95	**98**
As a percentage of average loan portfolio	1.4%	2.0%	2.0%	1.7%	**1.5%**

Premises and equipment costs for loan operations of $25 million include the leasing of more than 80 BDC offices across Canada, and also reflect the major commitment of investing in and maintaining information technology hardware and software. A proportionate share of such costs is allocated to Venture Capital and Consulting Group where appropriate. Other expenses of $55 million comprise staff training, publicity, marketing, and miscellaneous office expenses. Such expenses are closely monitored, and consequently the productivity ratio was maintained at 48 percent during fiscal 2003 despite a $2 million increase in pension costs. This important measure compares operating expenses to net interest and other income, with a lower ratio indicating better productivity. Concurrently, the Bank's customer satisfaction rating was maintained at the remarkable level of 91 percent in 2003, indicating that both staff productivity and customer service increased simultaneously.

Loans Operations Productivity Ratio

for the year ended March 31 *(percentage)*



During fiscal 2003, BDC opened two new offices in Calgary and Edmonton to improve the Bank's ability to service that growing market, and expanded a number of branches in other parts of Canada in order to take BDC's performance to higher levels in fiscal 2004. Recruiting of additional staff is planned in order to handle the expected level of customer demand in future years.

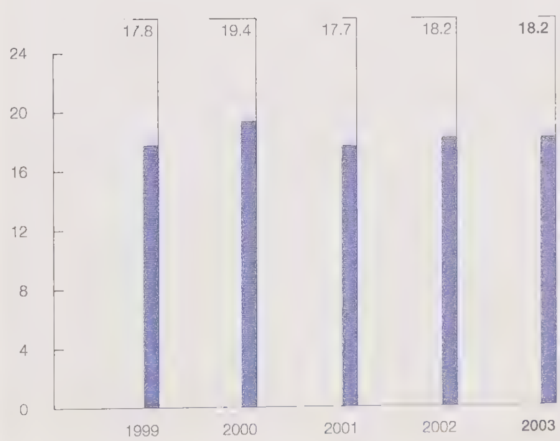
Operating expenses includes a credit for accounting purposes of $11.2 million related to the Bank's Registered Pension Plan, compared to a credit of $13.5 million in fiscal 2002. Notwithstanding the disappointing performance of the stock market in the last several years, the BDC Pension Plan at December 2002 was fully funded and continued to report an actuarial funding surplus which exceeded regulatory levels. Accordingly, both employee and employer contributions have been suspended since 1997. However during calendar year 2002 the surplus for accounting purposes was reduced from $91.6 million to $42.1 million, and if the return on the fund assets remains at low levels, it is possible that the surplus would be further reduced by December 2003. The latest actuarial calculations indicate that in fiscal 2004 the cost of the registered Pension Plan will increase from a credit of $11.2 million to a cost of $0.9 million. The Bank also maintains a Supplemental Pension Plan for employees which is unfunded, and the related accounting cost of $3.3 million was charged against earnings for fiscal 2003.

CONSULTING GROUP OPERATIONS

During fiscal 2003, the business of the Consulting Group was refocused on providing value-added services first and foremost to the Bank's target markets. Revenues for the year totaled $18.2 million, the same level as in fiscal 2002. A significant increase in productivity, lower expenses and a realignment of allocated costs reduced the operating loss from $5.7 million to $3.1 million. Given the nature of this business, it is expected that Consulting Group operations will continue to incur some losses until the revenue base can be increased.

Consulting Group Revenue from Activities

for the year ended March 31 *($ in millions)*



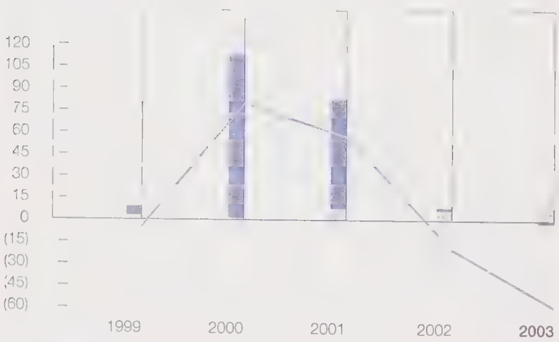
VENTURE CAPITAL

BDC's VC unit has been in existence for over 25 years and ranks amongst the best venture capital firms in Canada. According to a March 2003 study published by Canadian Venture Capital Association (CVCA) and Réseau Capital, BDC ranked in the first quartile for investment returns on early-stage venture capital investments, with a 30.4 percent, 7-year internal rate of return (as at December 31, 2001) in comparison to an industry median of less than 7.8%.

VC's results for last year however were again severely affected by unfavourable market conditions—investment income of only $2 million reflected a lack of divestiture opportunities, while a number of individual investments in the Venture Capital portfolio also experienced "permanent impairment", and in the judgment of Management it was necessary to write-down the value of those investments by amounts aggregating $50 million, compared to write-downs of $18.9 million in fiscal 2002. The net loss for the year was $59.5 million, compared to a loss of $21.0 million for the previous year.

Venture Capital Operations

for the year ended March 31 *($ in millions)*



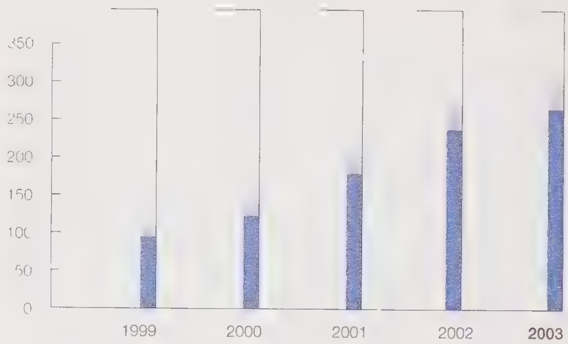
	1999	2000	2001	2002	2003
Net gains (losses) on investments	6.0	112.7	75.8	1.7	**(1.8)**
Other income	3.1	1.6	8.4	7.0	**4.0**
Total investment income	9.1	114.3	84.2	8.7	**2.2**
Venture Capital operating profit (loss)	(4.1)	80.0	56.2	(21.0)	**(59.5)**

Financial results from Venture Capital operations are subject to volatility from year to year, dependent on market conditions, as evidenced by the losses in fiscal years 2002 and 2003, following profits of $80 million and $56 million in fiscal years 2000 and 2001 respectively. The Bank's outlook for fiscal 2004 is that losses in the range of $30-40 million may again be sustained, unless there is an improvement in market conditions.

However, VC activities during fiscal 2003 were considerable—61 direct investments were authorized during the year for $93 million, a similar level of activity to the previous year despite generally lower market volumes, with $57 million or over 60 percent being for first round investments. Consequently the net investment portfolio increased from $271 to $302 million with fair market value at approximately $288 million. Such assets are carried at cost, less any write-downs for permanent impairment, and it is anticipated that the fair market value will fluctuate in fiscal 2004 pursuant to market conditions. Similar levels of investment activity are projected for 2004, and the portfolio is expected to grow to the $390 million range.

Total Investments Outstanding

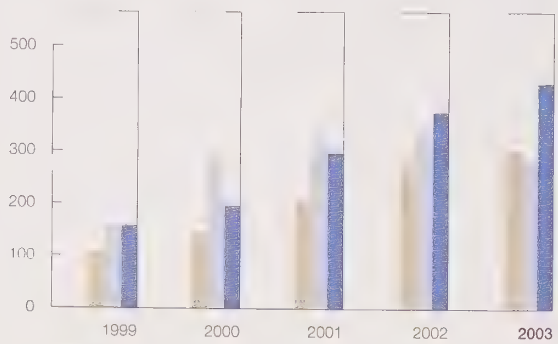
as at March 31 *($ in millions)*



	1999	2000	2001	2002	2003
Direct investments	95.0	122.8	177.8	237.3	**265.3**
Venture funds	15.3	22.3	28.6	33.8	**36.6**
Total investments	110.3	145.1	206.4	271.1	**301.9**

Valuation of Venture Capital — Total Investments

as at March 31 *($ in millions)*



	1999	2000	2001	2002	2003
Carrying value	110	145	206	271	**302**
Fair market value	159	281	314	327	**288**
Commitment	157	195	296	374	**430**

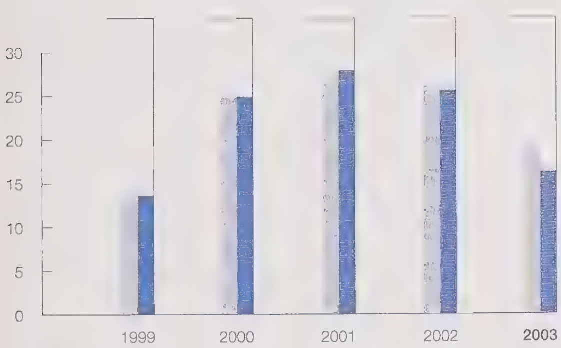
BDC has also invested in other venture capital funds, including five specialized funds with a BDC commitment of $38 million, of which $16 million has been disbursed to date. In addition, $40 million has been fully committed in four seed funds; these seed funds have in turn invested in some 85 Canadian companies. The Bank records its proportionate share of the realized gains, losses, and expenses of such funds with the expectation that most of the returns from such investments will be received in later accounting periods. The net loss recorded for the year was $2.8 million compared to $4.1 million for fiscal 2002.

VC uses the industry internal rate of return (IRR) standard to measure the performance of the investment portfolio. IRR measures the return by determining the rate at which the net present value of the cash flows equals zero. Part of this measure is dependent on an estimate of the current fair market value of assets.

In fiscal 2003, the 10-year IRR on direct investments was 19.2 percent, compared to 26.1 percent in 2002, reflecting the prevailing market conditions during the year. The overall portfolio's IRR, which includes the seed and specialized funds, decreased from 25.6 percent in fiscal 2002 to 16.3 percent in 2003.

Venture Capital 10-year Internal Rate of Return (IRR)

for the year ended March 31 *(percentage)*



	1999	2000	2001	2002	2003
Direct investments	13.5	24.8	26.9	26.1	**19.2**
Total investments	13.6	24.9	27.9	25.6	**16.3**

BALANCE SHEET

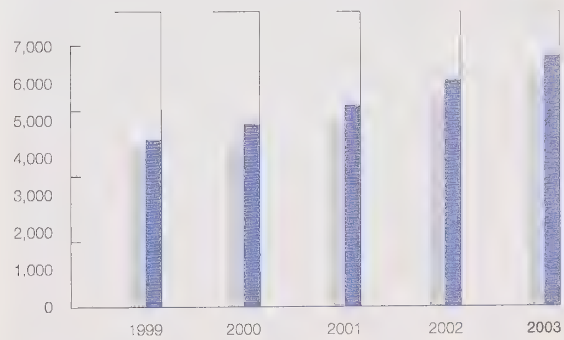
Total assets increased from $6.9 billion to $7.8 billion, driven primarily by increases of $619 million and $31 million in the net loan and net investment portfolios respectively.

The Bank operates within established liquidity parameters to ensure that sufficient funds are available to meet customers' needs, while taking a balanced approach to money market requirements. Cash, short-term investments and securities at year-end amounted to $794 million compared to $715 million at March 31, 2002.

The portfolios and liquidity assets aggregating $7.4 billion* comprise the principal assets of the Bank, and are funded by borrowings of $6.2 billion and shareholder's equity of $1.2 billion. The net portfolio growth of $650 million during fiscal 2003 was funded by borrowings of approximately $450 million and additional equity of $190 million contributed by the Government of Canada.

Total Outstanding Loans vs. Borrowings

as at March 31 *($ in millions)*



	1999	2000	2001	2002	2003
Loans	4,501	4,903	5,412	6,071	**6,715**
Borrowings	4,223	4,483	4,949	5,597	**6,174**

Fixed assets of $34 million comprise furniture, leasehold improvements and capitalized information technology investments, net of amortization.

Other assets of $373 million include unrealized gains and amounts receivable of $303 million on derivative financial instruments. These unrealized gains must be recognized in the balance sheet pursuant to Section 3860 of the Canadian Institute of Chartered Accountants' Handbook, and are offset by $179 million in unrealized losses and $85 million in accrued interest on borrowings.

*Shares are held by persons subject to section 33 of the *BDC Act* in Toon Boom Technologies Inc., a $3.4 million investment, and in Alliance Medical Inc., a $281,000 loan

Shareholder's Equity: Total shareholder's equity at year-end was $1,170 million, including an increase of $20 million in retained earnings net of dividends, and $190 million of additional common shares. This capital base will enable the Bank to increase its support for the growing needs of small businesses. In fiscal 2003 BDC introduced a new common share dividend policy. The dividend is calculated based on a formula that takes into consideration the financial performance of BDC. The dividend is applicable only to "new" common shares injected after fiscal 2002. For the seventh consecutive year BDC declared a dividend, payable to the Government of Canada. The amount for fiscal 2003 was $12.2 million, making a cumulative dividend of $67.1 million since fiscal 1997.

In addition, based on BDC's fiscal 2003 performance, a common dividend of $0.4 million will be paid and recorded in fiscal 2004.

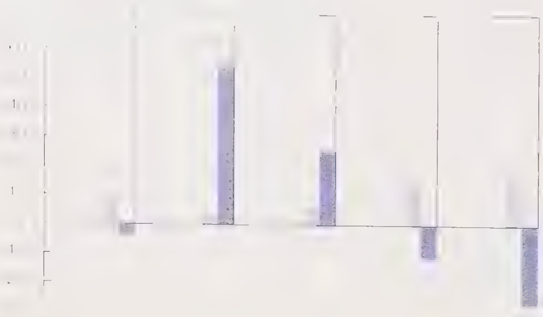
For the year ended March 31, 2003, the Bank operated within all statutory limits stipulated in the *BDC Act.* At year-end the debt-to-equity ratio was 5.3:1.

Return on Common Equity

The return on common equity for the overall results in fiscal 2003 was reduced to 2.7 percent from 5.7 percent last year, and lower than the Bank's long-term objective of 5.5 percent due to the losses experienced in Venture Capital operations. The return on equity for Loans and Consulting Group operations, calculated on a stand-alone basis, was 16.5 percent for fiscal 2003 compared to 15.1 percent for 2002.

Return on Common Equity
Loans and CG vs. Venture Capital

for the year ended March 31 *(percentage)*



	1999	2000	2001	2002	**2003**
Loans and CG	9.9	3.7	5.5	15.1	**16.5**
Venture Capital	(3.8)	54.1	25.2	(11.6)	**(27.0)**
Total Bank	6.4	18.7	12.6	5.7	**2.7**

CORPORATE PLAN DISCUSSION

Loans Operations—Comparison with 2003 Plan

Loan authorizations of $2.032 billion were 23 percent better than Plan, which, following disbursement, resulted in the portfolio of $6.7 billion compared to the Plan objective of $6.5 billion. The planned level of authorizations was somewhat conservative in that it was determined in the aftermath of the September 11 disaster and took into consideration the uncertainty prevailing at that time. In retrospect, Loans operations benefited from favourable economic conditions in Canada during fiscal 2003, which supported a steady demand for financing, together with a better than expected performance of the loans in the portfolio.

Loan loss provisions of $98 million were $17 million lower than Plan despite the increased portfolio, reflecting improved credit performance under good economic conditions. The Bank continued to take a prudent approach to loss provisioning, and maintained the general allowance at the same ratio as contemplated in the Corporate Plan, while the specific allowance decreased slightly.

Operating and administrative expenses were tightly controlled, and at $176 million were $4 million lower than Plan, as employee productivity improved to the extent that the incremental volume of business was handled by essentially the same complement of employees as in the previous year.

At the net income level, the benefit of the higher portfolio flowed through to the bottom line, with a strong net income of $94 million compared to Plan of $63 million.

2004 Corporate Plan Outlook

Another strong year is anticipated for fiscal 2004—loan authorizations of $2.1 billion are targeted to increase the portfolio to $7.4 billion, while increasing risk is expected to require loss provisions of $120 million, compared to $98 million in fiscal 2003. Some additional staffing will be required to handle the additional business, and pension costs are likely to increase by some $11 million. Operating expenses are anticipated to increase to $200 million. Net income is planned to remain strong at $90 million.

Venture Capital—Comparison with 2003 Corporate Plan

Notwithstanding negative public markets performance, investment activity continued at a high pace during the year, and $93 million in direct investments were authorized in line with the Plan level of $90 million. However, the write-downs of $50 million were significantly more than the Plan level of $15 million, although compared to industry experience the BDC portfolio held its value reasonably well. Operating expenses of $12 million were $2 million lower than Plan, and the net loss of $59.5 million was more than the planned loss of $1 million.

2004 Corporate Plan Outlook

The Plan provides that VC's financial performance will be similar to fiscal 2003, with $97 million of authorizations, $6 million of revenues, potentially $26 million of write-downs, and a net loss of $34 million. Also included in the Plan activities are additional investments of $25 million in specialized funds, and a $50 million commitment in a fund-of-funds. It is anticipated however that over the five-year planning period, VC's performance will improve and reach upwards of $50 million of net income in the last year of the planning period.

INTEGRATED RISK MANAGEMENT

Overview

Sound risk management practices are designed to help BDC achieve its objectives and execute its strategies consistently with its mandate. The Bank has well-established processes for evaluating and managing its business risks. Overall business risks are grouped into three risk categories: credit, market and operational. BDC considers all of its business risks on an integrated basis when making key operating decisions. As an example, last fall Management and the Board approved a market strategy called "Risk, An Opportunity" geared towards taking increased risk with target clients/markets. The analysis leading and supporting the formulation of this strategy was conducted with an integrated view of all business related risks.

Governance: The Board recently reviewed its governance practices which were determined to be in accordance with best practices. It also reviewed BDC's "top ten" risks. A three-year rolling plan identifies Management's proposed actions and initiatives supporting the management of these risks. The Board receives regular reports from management about the Bank's risk exposures. While the senior management team (SMT) is responsible for all risks, a Portfolio Risk Management Group, reporting directly to the Executive Vice-President, Integrated Risk and Resources Management, focuses on the loan portfolio and BDC's asset and liability positions, thus supporting risk management of key operational groups such as Loans, Venture Capital, Credit Risk Management, Treasury and others.

The **Asset and Liability Committee (ALCO),** which includes senior officers of the Bank, and the Bank's credit risk management function, periodically reviews the policies governing credit, market and liquidity risks related to the Bank's operations. ALCO's policies are approved by the Board and ensure financial risks are responsibly managed to safeguard the Bank's assets. Through these policies the Bank monitors its compliance with the *Financial Risk Management Guidelines for Crown Corporations* issued by the Minister of Finance.

On a quarterly basis, Management holds a **Portfolio Outlook** meeting to oversee loan portfolio trends, risk indicators, concentrations, portfolio studies and loan quality assessments. Reports reviewed and decisions recommended form the basis of Management's actions and information for the Board.

Risk Management Structure and Responsibilities

BOARD OF DIRECTORS

> Approve risk policies, risk appetite and strategies
> Ensure risk management and control framework is effective
> Review portfolio and major risks and management plans
> Review capital adequacy

SENIOR MANAGEMENT TEAM

> Establish risk and control framework
> Identify, assess, mitigate, measure and report risk
> Identify major risks and implement appropriate action plans
> Recommend risk management policies and strategies
> Identify risk owners and responsibilities and allocate resources

ASSET AND LIABILITY COMMITTEE	CREDIT COMMITTEE	STRATEGIC BUSINESS COUNCIL	PORTFOLIO OUTLOOK
Oversee Treasury funding activities, and compliance with risk policies including matching of assets and liabilities	Review and approve large loan transactions or recommend them to the Executive Committee of the Board	> Define target markets and gaps > Integrate management of projects affecting credit risk management and operations	Review loan portfolio concentrations, risk migration and quality and recommend actions

BDC's **Strategic Business Council** regularly reviews the relationship between business solutions, risk appetite and credit risk assessment tools. These are enhanced or revised as required to more flexibly meet the needs of clients, and the Bank's risk objectives. Therefore the Council performs a loan portfolio risk integration role.

BDC's **Audit and Inspection** team reviews branches and their loan portfolios for credit risk and compliance with policies and procedures in support of bank objectives. Seventy percent of branches reviewed achieved the highest rating of "effective".

Capital Management: As a complementary lender, BDC is facing and purposely targeting higher levels of credit risk than the majority of private sector financial institutions. As such, sufficient earnings are required not only to compensate for this risk and maintain an adequate level of capital to cover expected and unexpected losses, but also to increase capital to enable the Bank to grow its portfolio by providing additional financing to entrepreneurs. BDC's underlying capital management philosophy is to maximize the shareholder's objective to support active and healthy businesses while ensuring self-sufficiency in terms of financial strength to cover all phases of an economic cycle.

BDC has developed an "economic capital" model based on its own experience and industry best practices for measuring and monitoring capital adequacy. The model is used to measure the capital required to support expected and unexpected losses in credit risk as well as market and operational risks. Capital adequacy is managed to ensure compliance with the 12:1 debt to equity ratio required by the *BDC Act*. Capital requirements for future growth are reviewed in the context of growth and risk tolerance objectives with Management, the Board and the shareholder annually when preparing the corporate plan.

The Bank also operates within certain ratios between debt and equity according to various categories of financing, to determine the adequacy of its capital base:

Commercial Lending	10:1
Subordinate Financing	4:1
Venture Capital	1:1

CREDIT RISK

Loan Portfolio Risk Management

Loan Credit Risk *Loan credit risk is the risk of financial loss that arises from the possibility of default on a loan.*

BDC's mandate requires it to lend to a high-risk segment of the Canadian commercial loan sector. As the portfolio comprises a disproportionately large volume of small loans, it is not possible to attribute ratings of independent credit agencies. Thus, credit decisions are based on the application of BDC's credit experience with like customers. Policies and procedures, together with risk assessment tools, support these business decisions. All loans are assessed within a risk-rating framework which is closely linked to a risk-pricing tool. The risk rating provides the basis for underwriting and management of all loans in the portfolio. Reports are routinely provided to Management and the Board. Underwriting decisions are decentralized and are subject to independent review and audit.

Environmental Risk: *Environmental risk is a financial loss resulting from a loan with an environmental hazard that was unforeseen or improperly managed.*

BDC has a well-defined process for identifying and evaluating environmental risk at the time of authorization of a loan, and a monitoring process to ensure that potential environmental risks continue to be identified and appropriately managed throughout the term of a loan.

Loan Portfolio Management

A new Portfolio Management system was introduced this year to provide the Bank with weekly information on five key risk indicators for new loans and nine portfolio performance indicators. The system allows Management to quickly identify trends. Risk indicators are monitored by industry, geographic sector, business solution, loan size or any combination thereof. Exception reports enable Management to focus attention on corrective action as required.

Portfolio strategies

The Strategic Business Council analyzes data and recommends portfolio strategies. Comprised of representatives from different departments of the Bank, including field operations, marketing, portfolio risk management and credit risk management, each member ensures a balanced and integrated view of both market and risk strategies. As such, the Council supports SMT and the Board in defining market gaps and implementing portfolio and market strategies.

Loan Impairment

A special loans group manages accounts which are impaired or at risk of becoming impaired due to adverse market conditions. Despite significant increases in loan volumes, impaired loans amounted to $281 million at March 2003, compared to $268 million a year ago. The specific allowance for credit losses of $96 million is expected to be sufficient to cover the net loss exposure of these loans.

The general allowance of $331 million as at March 31, 2003 was established in accordance with the Bank's methodology and is considered adequate to cover the unidentified losses existing in BDC's $6.4 billion performing loan portfolio at March 31, 2003.

Loan Portfolio Concentration Risk: *Concentration risk is the risk of several loans or borrowers defaulting at the same time.* Within the domestic Canadian economy, the Bank's loan portfolio is well diversified, both geographically and by industry sector.

Treasury Credit Risk

Liquidity Investments: *Liquidity investment risk is the risk that the quality of the counterparty deteriorates during the transaction period resulting in a loss.*

BDC's treasury department's primary responsibility with liquidity management is to ensure that the Bank has the capacity to meet its payment obligations on a timely and cost-effective basis. BDC has a well-defined liquidity and investment policy. The application of the policy is monitored daily by the Portfolio Risk Management Group. As such, limits are set on the funding and investment profile of the liquidity portfolio and minimum/maximum liquidity levels are calculated based on projected net cash outflows, therefore covering payment and commitment risks. The policy provides clear guidelines for investment counter-parties, all of which are rated above A-. As at March 31, 2003, 92 percent of BDC's liquidity investments were to mature within three months.

Risk Exposure in Cash, Short-Term Investments and Securities

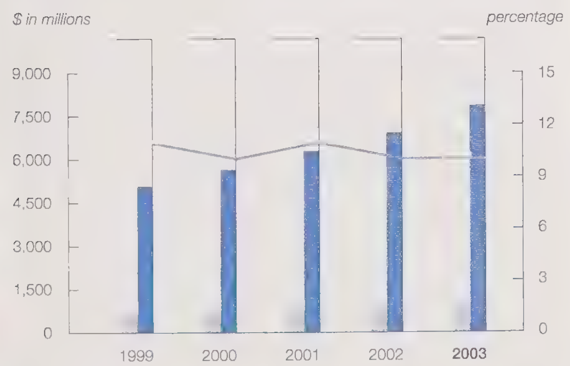
as at March 31, 2003 *($ in millions)*

Credit rating*	Term to maturity: Less than 3 months	3 months to 1 year	1 to 5 years
AAA	134.9	0.0	0.0
AA- to AA+	316.3	7.7	56.2
A to A+	279.5	0.0	0.0
Total	730.7	7.7	56.2

* From major credit agencies.

Liquidity Ratio

as at March 31



	1999	2000	2001	2002	2003
Total assets (value)	5,098	5,666	6,226	6,897	**7,791**
Cash, short-term investments and securities (value)	546	578	674	715	**794**
Liquidity ratio	11%	10%	11%	10%	**10%**

Derivative Instruments: *Issuer/counterparty risk is the risk of the non-performance of a counterparty and the possible default of a treasury asset or risk transfer transaction, such as a derivative instrument.*

BDC has established credit limits under its counterparty credit risk policy to monitor and manage the credit risk of derivatives. Counterparty credit risk exposure arises when such instruments have positive market value. The Bank has entered into International Swaps and Derivatives Association (ISDA) agreements with counter-parties to derivative transactions in accordance with industry practice. During the year, ISDA agreements have been renewed to include a credit support annex which defines a collateral threshold amount required to protect BDC against risks such as a potential downgrading associated with a counterparty. It is also intended to mitigate credit risk related to increases in mark-to-market values.

Counterparty Credit Risk Exposure

as at March 31, 2003 *($ in millions)*

Credit rating*	Term to maturity – Gross exposure: Less than 1 year	1 to 3 years	3 years and over	Net exposure**
AAA	0.0	0.0	0.0	0.0
AA- to AA+	0.0	6.3	85.6	75.3
A to A+	19.7	6.6	71.3	9.6
Total	19.7	12.9	156.9	84.9

* From major credit agencies.
** After the impact of master netting agreements and collateral held by the Bank.

MARKET RISK

Market risk is the risk that the value of assets, liabilities or other financial instruments will vary because of changes in market prices.

Market risk includes exposure to interest rates, foreign exchange, liquidity and equity prices.

BDC funds its financing activities by issuing money market instruments, commercial paper and capital market long-term notes. The Bank monitors and manages the market risk exposures associated with these borrowing activities. Market risk factors, such as foreign exchange, equity or commodity prices, or other possible risk factors arising from funding activities, are hedged by the Bank at the transaction level. Canadian interest rate risk comprises the residual market risk exposure.

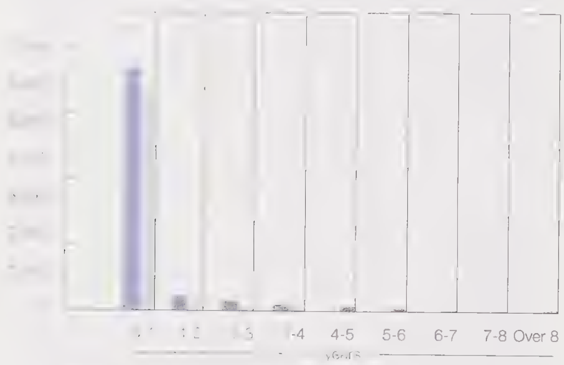
Interest Rate Risk: *Interest rate risk is the risk that market rate fluctuations lead to loss in value of financial instruments.*

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. BDC uses borrowing strategies and derivative instruments to minimize these differences.

The following graph shows the interest rate gap position of the Bank's lending assets and liabilities as at March 31, 2003, after accounting for the effect of derivative instruments. This indicates that since interest-bearing assets exceed time-related liabilities, the risk has been minimized.

Interest Rate Sensitivity Asset and Liability Gap

as at March 31 *($ in millions)*



Assets	6,440	366	263	168	117	73	28	24	41
Liabilities	5,944	190	110	97	–	–	–	–	–

The Treasury Market Risk Policy provides guidance for the proactive management of market risk exposure arising from potential adverse movements in interest rates.

The objective of the policy is to minimize the volatility of net interest income and economic value. As such, the policy sets the following controls and limits to ensure the appropriate matching of the Bank's loan portfolio with equity and required debts:

> Sensitivity of economic value of equity by measurement of duration and value-at-risk. For this purpose, BDC uses a 99 percent confidence level and a one year moving historical database;

> Extreme test related to the variability of projected net interest income for the next twelve months related to a 2 percent interest rate variance.

Foreign Exchange Risk: *Market fluctuations in foreign currencies when compared to local currency produce a loss in value.*

Loan assets are maintained in Canadian dollars, while borrowing liabilities originated in foreign currency are fully hedged at the transaction level to Canadian dollars through the use of cross-currency swaps and foreign exchange forward contracts.

Venture Capital Investments: By their nature, venture capital investments are high risk. The return on the investment portfolio depends on the divestitures of successful investments. Successful investments are realizable privately or through transactions on public financial markets that depend on equity prices. The Bank mitigates such risks through conservative valuation, syndication of investments and regular monitoring, and divests its holdings on a phased basis, taking into account market conditions and applicable restrictions on such transactions. During the year VC performed a review of their key risks, which resulted in focusing Management more closely on specific risks and opportunities.

OPERATIONAL RISK

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, processes or systems, or from rare but severe events, such as natural disasters.

BDC has well-defined internal control systems and processes in place for its business transactions. A comprehensive set of policies and procedures govern information processing, lending operations, human resources management and other key operational functions. The Bank's review of its top ten risks includes action plans intended to address operational risks.

BDC has a comprehensive business recovery planning process to ensure continuity of its key business functions in case of disaster. It successfully tested this process during the year and continues to review and improve its contingency planning.

BDC manages the risks associated with technology and telecommunication failures through programs for replacement of computer systems and equipment. Security and control procedures are in place to respect privacy standards and to ensure that information is managed accurately and efficiently.

The Bank has a comprehensive training and development program for employees and is proactively planning succession of key roles. This approach is supported by a "culture of ethics" founded on the Code of Conduct and linked to BDC's Ombudsman's office. In addition to the Code of Conduct which covers such things as conflicts of interest, privacy and professional business conduct, BDC has introduced reporting requirements for contacts by directors, senators, elected officials and their representatives.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

Michel Vennat
President and Chief Executive Officer

Alan B. Marquis
Senior Vice-President, Finance and Chief Financial Officer

Montreal, Canada
May 23, 2003

AUDITORS' REPORT

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2003 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act,* we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Montreal, Canada
May 23, 2003

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 23, 2003

BALANCE SHEET

as at March 31 *($ in thousands)*	2003	2002
ASSETS		
Cash and short-term investments (Note 3)	$ 730,717	$ 632,441
Securities (Note 4)	63,259	82,655
	793,976	715,096
Loans, net of allowance for credit losses (Notes 5 and 6)	6,288,636	5,669,513
Venture capital investments (Note 7)	301,945	271,064
	6,590,581	5,940,577
Fixed assets, net of accumulated amortization	33,712	28,912
Other assets (Note 8)	373,090	212,619
	406,802	241,531
TOTAL ASSETS	$ 7,791,359	$ 6,897,204
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	$ 56,555	$ 52,618
Accrued interest on borrowings	89,151	129,226
	145,706	181,844
Borrowings (Note 9)		
Short-term notes	3,265,368	3,444,279
Long-term notes	2,908,520	2,152,764
	6,173,888	5,597,043
Other liabilities (Note 10)	301,748	157,997
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	788,400	598,400
Contributed surplus	27,778	27,778
Retained earnings	353,839	334,142
	1,170,017	960,320
Contingent liabilities and commitments (Note 16)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 7,791,359	$ 6,897,204

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

Terry B. Grieve,
Director

Michel Vennat,
Director

STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended March 31 *($ in thousands)*	2003	2002
Loans		
Interest income		
Interest on loans	$ 490,027	$ 475,070
Short-term investments and securities	24,747	32,330
	514,774	507,400
Interest expense	176,618	195,127
Net interest income	338,156	312,273
Provision for credit losses (Note 6)	98,000	95,000
Net interest income after provision for credit losses	240,156	217,273
Other income	30,800	28,372
Income before operating and administrative expenses	270,956	245,645
Operating and administrative expenses (Note 12)	176,449	165,187
Income from Loans	94,507	80,458
Consulting Group		
Revenue	18,221	18,189
Operating and administrative expenses (Note 12)	21,363	23,937
Loss from Consulting Group	(3,142)	(5,748)
Venture Capital		
Interest and dividends	1,782	3,608
Net realized gains on investments	3,752	7,825
Unrealized losses on temporary investments	(5,606)	(6,078)
Other	2,237	3,338
Investment income	2,165	8,693
Write-down of investments	50,041	18,948
Net investment loss	(47,876)	(10,255)
Operating and administrative expenses (Note 12)	11,609	10,722
Loss from Venture Capital	(59,485)	(20,977)
NET INCOME	31,880	53,733
RETAINED EARNINGS		
Beginning of year	334,142	297,126
Dividend on preferred shares	(12,183)	(16,717)
END OF YEAR	$ 353,839	$ 334,142

The accompanying Notes to Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

For the year ended March 31 (*$ in thousands*)	2003	2002
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	$ 31,880	$ 53,733
Adjustments to determine net cash flows:		
Net realized gains on venture capital investments	(3,752)	(7,825)
Unrealized losses on venture capital temporary investments	5,606	6,078
Provision for credit losses and write-down of venture capital investments	148,660	114,558
Amortization of fixed assets	8,977	10,355
Changes in operating assets and liabilities:		
Change in interest receivable on loans	(1,201)	1,616
Change in accrued interest on borrowings	(21,225)	(16,552)
Translation adjustment on borrowings and securities	(54,520)	(84,337)
Net change in unrealized gains and amounts receivable on derivative financial instruments	(149,282)	63,133
Net change in unrealized losses and amounts payable on derivative financial instruments	123,672	(12,782)
Net change in other assets and other liabilities	(1,315)	(4,330)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	87,500	123,647
CASH FLOWS USED IN INVESTING ACTIVITIES		
Net change in securities	15,342	(13,707)
Net change in securities purchased under resale agreements	89,823	6,201
Disbursements for loans	(2,141,799)	(1,868,894)
Disbursements for venture capital investments	(102,254)	(102,547)
Repayments of loans	1,425,877	1,157,019
Proceeds on sales of venture capital investments	19,478	20,642
Net acquisition of fixed assets	(13,777)	(6,949)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(707,310)	(808,235)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Issue of long-term notes	1,472,654	798,945
Repayment of long-term notes	(729,965)	(943,271)
Net change in short-term notes	(107,270)	875,445
Proceeds from issue of common shares	190,000	—
Dividend paid on preferred shares	(17,510)	(13,844)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	807,909	717,275
Net increase in cash and cash equivalents	188,099	32,687
Cash and cash equivalents at beginning of year	467,641	434,954
Cash and cash equivalents at end of year (note 3)	$ 655,740	$ 467,641
Supplemental disclosure of cash flow information		
Amount of interest paid in the year	$ 197,843	$ 211,679

The accompanying Notes to Financial Statements are an integral part of this statement.

1. ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly-owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. The Bank offers to Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. *The Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs and disclosure of fair values of venture capital investments. A variation in the circumstances or economic conditions under which these estimates are made could result in a significant change in these management judgments. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are included in income.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses*, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

The allowance for credit losses is comprised of specific and general allowances.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent to the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture capital investments

Venture capital investments are recorded at cost, whereby interest and dividends are included in income when received. Investments in venture capital and seed capital funds over which the Bank has joint control or significant influence are accounted for using the proportionate consolidation or equity accounting method, respectively. Under these methods, the Bank accrues its share of the undistributed income or expenses of the funds. Gains or losses on disposal of investments are recognized in income when realized. However, when the value of an investment is permanently impaired, the investment is written down to recognize the loss.

Non-cash consideration received on disposal of investments is presented as temporary investments within venture capital investments and recorded at the lower of the value at the date of sale of the venture capital investment and current market value at the balance sheet date.

Fixed assets and amortization

Fixed assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

Computer equipment and software	3-7 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

All exchange gains and losses are included in determining net income for the year.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. The Bank's policy is not to use derivative financial instruments for trading or speculative purposes. The Bank formally documents all relationships between hedging instruments and hedged items. This process includes linking all derivatives to specific assets and liabilities on the balance sheet.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used as hedges of interest rate risk resulting from the repricing of assets and liabilities. The Bank designates its interest rate hedge agreements as hedges of underlying borrowings. These derivatives are accounted for on an accrual basis with the related interest revenue or expense recognized over the life of the hedged position as an adjustment to interest expense and presented in other assets and in accrued interest on borrowings.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments such as currency swaps, cross-currency interest rate swaps, equity-linked swaps, and forward foreign exchange contracts are used as hedges for foreign currency and equity market risk resulting from foreign currency denominated or equity-linked borrowings. Unrealized foreign exchange and equity translation gains and losses on these derivative financial instruments are respectively accrued in other assets and liabilities on the balance sheet and are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency or equity-linked borrowings. The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Employee future benefits

The Bank maintains defined benefit pension plans for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments.

The net pension expense or credit is comprised of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on pension liabilities, expected income on plan assets based on an average of market-related values and the amortization of experience gains or losses, adjustments from plan amendments and transitional balances upon adoption of the current accounting policy. Amortization is charged on a straight-line basis over the expected average remaining service life of the employees covered by the plans.

Amortization of experience gains or losses is recognized in the expense for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligation or 10% of the fair market value of the plan assets, whichever is greater. Amortization corresponds to the excess divided by active employees' expected average remaining service life.

The Bank also provides life insurance, health care and retirement allowance benefits for eligible retirees as well as other employee and retiree benefits which are accrued based on actuarial valuations.

3. CASH AND SHORT-TERM INVESTMENTS

	2003	2002
Bank account balances, net of cheques outstanding	$ (5,187)	$ (694)
Short-term bank notes	660,927	468,335
Cash and cash equivalents	655,740	467,641
Securities purchased under resale agreements	74,977	164,800
	$ 730,717	$ 632,441

Short-term bank notes have maturities at the original acquisition date of less than 90 days.

The Bank enters into short-term agreements, whereby it purchases and simultaneously commits to resell securities at a specified price on a specified date. These transactions, which are a form of secured investing by the Bank, produce interest income over the term of the investments.

4. SECURITIES

	Term to maturity Within 1 year	1 to 3 years	2003 Total	2002 Total
Canada				
Carrying value	$ –	$ –	$ –	$ 25,879
Yield	–	–	–	6.75%
Fair value	$ –	$ –	$ –	$ 25,936
Financial Institutions				
Carrying value	$ 7,677	$ 55,582	$ 63,259	$ 56,776
Yield	3.28%	3.23%	3.23%	2.84%
Fair value	$ 7,677	$ 56,201	$ 63,878	$ 57,497
Total				
Carrying value	$ 7,677	$ 55,582	$ 63,259	$ 82,655
Yield	3.28%	3.23%	3.23%	4.09%
Fair value	$ 7,677	$ 56,201	$ 63,878	$ 83,433
Swap Contracts				
Notional amount	$ 7,600	$ 55,000	$ 62,600	$ 78,535
Adjusted yield (1)	3.35%	3.10%	3.13%	2.18%
Amounts denominated in foreign currencies included in the carrying value of securities				
	US dollars - 2002	$ 45,814		$ 72,962
	US dollars - 2003	$ 20,720	$ 30,388	

(1) After adjusting for the effect of related derivatives (see Note 14).

All securities held as at March 31 were issued by Canadian entities at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to adjust the interest rate and the foreign exchange risks associated with the above securities.

5. LOANS

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2003		2002	
Performing—floating	$ 4,777,768	7.45%	$ 3,854,234	6.43%
Performing—fixed				
Under one year	534,545	8.06%	473,370	8.19%
1 to 2 years	246,150	8.60%	439,889	8.50%
2 to 3 years	253,176	9.12%	211,761	9.16%
3 to 4 years	174,654	9.11%	247,302	9.64%
4 to 5 years	148,687	9.48%	162,552	9.34%
Over 5 years	299,437	8.78%	413,633	9.08%
Performing	6,434,417		5,802,741	
Impaired	280,928		267,958	
Total loans	6,715,345		6,070,699	
Allowance for credit losses				
General	(330,464)		(300,746)	
Specific	(96,245)		(100,440)	
	(426,709)		(401,186)	
Loans, net of allowance for credit losses	$ 6,288,636		$ 5,669,513	

The average amount of loans, net of allowance for credit losses, was of $5,959,328 in 2003 ($5,334,944 in 2002).

5. LOANS (continued)

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic Distribution	2003		2002	
Newfoundland and Labrador	$ 251,476	3.8%	$ 215,141	3.6%
Prince Edward Island	42,965	0.6%	42,261	0.7%
Nova Scotia	149,810	2.2%	128,716	2.1%
New Brunswick	255,802	3.8%	223,168	3.7%
Quebec	2,661,460	39.6%	2,483,772	40.9%
Ontario	2,140,631	31.9%	1,832,667	30.2%
Manitoba	92,715	1.4%	99,684	1.6%
Saskatchewan	107,546	1.6%	102,522	1.7%
Alberta	401,697	6.0%	354,743	5.8%
British Columbia	562,623	8.4%	539,734	8.9%
Yukon	20,399	0.3%	20,964	0.3%
Northwest Territories and Nunavut	28,221	0.4%	27,327	0.5%
Total loans outstanding	$ 6,715,345	100.0%	$ 6,070,699	100.0%

6. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31:

	2003	2002
Balance at beginning of year	$ 401,186	$ 358,154
Write-offs	(72,544)	(49,008)
Interest income due to accretion	(3,671)	(5,100)
Recoveries	3,738	2,140
	328,709	306,186
Provision for credit losses	98,000	95,000
Balance at end of year	$ 426,709	$ 401,186

7. VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments which is focussed on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.4% of total venture capital investments.

	2003		2002	
Industry Sector	Carrying value	Fair value	Carrying value	Fair value
Biotechnology/Medical/Health	$ 77,601	$ 71,446	$ 80,692	$ 87,418
Computer	50,889	53,782	49,504	53,028
Venture Capital Seed Funds	20,718	17,459	25,917	39,676
Venture Capital Funds	15,929	16,281	7,885	10,495
Electronics	63,736	59,039	49,707	69,615
Communications	57,023	50,745	39,257	48,562
Energy	6,200	6,200	6,015	6,015
Industrial	4,400	4,806	3,484	3,890
Consumer-related	2,538	2,538	2,538	2,574
Other	2,911	5,295	6,065	6,200
Venture capital investments	$ 301,945	$ 287,591	$ 271,064	$ 327,473

(See Note 13 for determination of fair value)

The preceding table includes $8,030 ($13,567 in 2002) of temporary investments, with a fair value of $8,200 ($14,548 in 2002). The average carrying value of venture capital investments was $292,415 in 2003 ($247,882 in 2002).

7. **VENTURE CAPITAL INVESTMENTS** (continued)

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

Carrying value	2003	2002
Common shares	$ 119,738	$ 121,441
Preferred shares	151,663	129,879
Debentures	30,544	19,744
Venture capital investments	$ 301,945	$ 271,064

The Bank has invested in T^2C^2 Bio, T^2C^2 Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2003	2002
Current assets	$ 2,331	$ 3,949
Venture capital investments	17,227	21,581
Other assets	9	13
Current liabilities	10	15
Investment income	1,556	2,311
Write-down on investments	3,233	5,142
Operating and administrative expenses	1,145	1,318
Net loss	$ (2,822)	$ (4,149)
Cash flows from (used in):		
Operating activities	$ (1,023)	$ (872)
Investing activities	2,565	410
Financing activities	(3,150)	1,748

8. **OTHER ASSETS**

	2003	2002
Unrealized gains and amounts receivable on derivative financial instruments	$ 302,565	$ 153,283
Accrued benefit asset	62,606	51,419
Unamortized debt issue expenses on long-term notes	1,462	794
Other	6,457	7,123
	$ 373,090	$ 212,619

Unrealized gains and amounts receivable on derivative financial instruments are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings. Unrealized losses and amounts payable to counterparties under derivative contracts are included in "Other liabilities" (see Note 10) and in "Accrued interest on borrowings".

9. **BORROWINGS**

The Bank issues debt instruments in world money and capital markets to fund its loan portfolio. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of the Bank's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, the Bank enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks. The table below shows the outstanding notes as at March 31.

			2003		2002	
Maturity date	Effective rate		Principal amount	Carrying value	Principal amount	Carrying value
Short-term notes						
2003		USD			$ 1,235,065	$ 1,959,494
		CDN			1,488,305	1,484,785
2004	2.66%-3.33%	USD	$ 800,907	$ 1,160,611		
		CDN	2,115,249	2,104,757		
Total short-term notes				$ 3,265,368		$ 3,444,279

9. BORROWINGS (continued)

Maturity date	Effective rate*		2003 Principal amount	2003 Carrying value	2002 Principal amount	2002 Carrying value
Long-term notes						
2003		USD	$ —	$ —	$ 13,000	$ 19,772
		CDN	—	—	276,500	276,500
2004	2.73%-3.03%	USD	12,500	33,211	—	—
	2.60%-6.10%	CDN	347,500	347,500	317,500	317,500
2005	2.79%-5.15%	CDN	181,000	181,000	181,000	181,000
2006	2.58%-5.65%	CDN	241,665	242,466	240,536	235,098
2007	2.80%	EURO	4,587	7,233	4,587	6,361
	2.67%-6.01%	CDN	268,760	275,443	257,094	256,863
2008	2.89%	USD	5,000	7,336	—	—
	2.69%-4.61%	CDN	265,600	265,600	114,600	114,600
2009	2.78%	USD	50,000	73,361	—	—
	2.65%-2.88%	CDN	268,032	272,890	230,832	227,297
2010	2.84%-5.82%	USD	25,000	36,680	25,000	39,828
	2.68%-2.86%	CDN	186,461	195,683	102,665	102,665
2011	2.78%	USD	10,000	14,075	10,000	15,850
	2.61%-2.89%	CDN	213,610	211,190	65,000	65,000
2012		YEN	—	—	500,000	13,276
		CDN	—	—	35,000	35,000
2013	2.83%-2.86%	YEN	2,000,000	24,735	—	—
	2.81%-2.89%	USD	71,000	104,171	—	—
	2.83%	CDN	5,000	5,000	—	—
2014		YEN	—	—	1,600,000	19,212
2015	2.79%-2.89%	YEN	8,600,000	106,359	2,600,000	31,220
2017		YEN	—	—	16,300,000	195,722
2018	2.76%-2.90%	YEN	40,800,000	504,587	—	—
Total long-term notes				$ 2,908,520		$ 2,152,764

* The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 14.

The preceding table includes $2,493,520 in 2003 and $1,592,764 in 2002 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for callable and extendable notes are presented based on their first option date.

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the above table are as follows:

	2003	2002
Interest-bearing notes	$ 455,000	$ 560,000
Fixed and inverse floating rate notes callable prior to maturity	477,188	43,227
Managed futures	594,767	188,056
Notes linked to equity indices	808,575	731,689
Notes linked to currency rates	177,903	104,890
Notes linked to swap rates	13,604	69,643
Fixed rate notes callable prior to maturity	45,000	188,822
Notes extendible beyond maturity	10,000	118,000
Other structured notes	326,483	148,437
	$ 2,908,520	$ 2,152,764

9 BORROWINGS (continued)

As at March 31, 2003, the payment requirements and maturities of long-term notes are as follows:

2004	$ 380,711
2005	181,000
2006	242,466
2007	282,676
2008	272,936
2009 and later	1,548,731
	$ 2,908,520

10 OTHER LIABILITIES

	2003	2002
Deferred income	$ 590	$ 927
Accrued benefit liability	96,905	88,436
Unrealized losses and amounts payable on derivative financial instruments	178,671	36,150
Other	25,582	32,484
	$ 301,748	$ 157,997

11 SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding	2003			2002		
	Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares						
Class A — Series 1	500,000	$ 50,000	4.585%	500,000	$ 50,000	5.592%
— Series 2	500,000	50,000	6.545%	500,000	50,000	6.545%
— Series 3	500,000	50,000	5.515%	500,000	50,000	5.515%
— Series 4	400,000	40,000	3.760%	400,000	40,000	5.548%
— Series 5	400,000	40,000	3.910%	400,000	40,000	6.251%
— Series 6	—	—		650,000	65,000	4.879%
		230,000			295,000	
Common shares	5,584,000	558,400		3,034,000	303,400	
Total Outstanding Share Capital		$ 788,400			$ 598,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from one to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.230% to 0.375%.

During the year ended March 31, 2003, the holder of Series 6 Preferred Shares Class A opted to convert $65 million of the preferred shares to 650,000 common shares and the Bank issued 1,900,000 common shares for a cash consideration of $190 million.

Statutory Limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion.

12. OPERATING AND ADMINISTRATIVE EXPENSES

	2003			2002		
	Loans	Consulting Group	Venture capital	Loans	Consulting Group	Venture capital
Salaries and staff benefits	$ 95,923	$ 17,465	$ 6,193	$ 89,437	$ 18,479	$ 4,835
Premises and equipment	25,042	649	1,179	25,341	1,305	1,017
Other expenses	55,484	3,249	4,237	50,409	4,153	4,870
	$ 176,449	$ 21,363	$ 11,609	$ 165,187	$ 23,937	$ 10,722

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However, many of the financial instruments lack an available trading market. Therefore, in these cases fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2003			2002		
	Carrying value	Fair value	Fair value over (under) carrying value	Carrying value	Fair value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and short-term investments	$ 730,717	$ 730,717	$ –	$ 632,441	$ 632,441	$ –
Securities (Note 4)	63,259	63,878	619	82,655	83,433	778
Loans, net of allowance for credit losses	6,288,636	6,307,924	19,288	5,669,513	5,680,904	11,391
Venture capital investments	301,945	287,591	(14,354)	271,064	327,473	56,409
Other assets	144,498	144,498	–	60,927	60,927	–
	$ 7,529,055	$ 7,534,608	$ 5,553	$ 6,716,600	$ 6,785,178	$ 68,578
Liabilities						
Accounts payable and accrued liabilities	$ 56,555	$ 56,555	$ –	$ 52,618	$ 52,618	$ –
Accrued interest on borrowings	59,457	59,457	–	79,068	79,068	–
Short-term notes	3,265,368	3,265,368	–	3,444,279	3,444,279	–
Long-term notes	2,908,520	2,924,414	15,894	2,152,764	2,155,999	3,235
Other liabilities	5,689	5,689	–	11,927	11,927	–
	$ 6,295,589	$ 6,311,483	$ 15,894	$ 5,740,656	$ 5,743,891	$ 3,235
			$ (10,341)			$ 65,343
Derivative financial instruments (Note 14)	$ (43,923)	$ (60,327)	$ (16,404)	$ 13,148	$ (19,977)	$ (33,125)
Total			$ (26,745)			$ 32,218

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value—The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities—The fair value of securities is provided in Note 4 to the financial statements.

Loans—For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses.*

Venture capital investments—For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

Long-term notes—The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments—The fair value of derivative financial instruments is provided in Note 14 to the financial statements.

14. DERIVATIVE FINANCIAL INSTRUMENTS

As described in Note 2, the Bank uses derivative financial instruments to manage the financial risk of certain on-balance sheet positions. These instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity investment or index and depending on the circumstances, may include the following:

Swaps

Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Currency swaps* involve exchange of currencies at specific prices and dates. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps,* one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

Options

Options are agreements in which the writer (or the seller) of the option grants the buyer the right, but not the obligation, to buy or sell a specific amount of a currency, commodity or financial instrument at a price agreed upon when the options are arranged. The writer receives a premium for selling this instrument.

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

	2003			2002		
	Positive	Negative	Net amount	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap contracts	$ 5,997	$ 3,391	$ 2,606	$ 4,355	$ 8,521	$ (4,166)
Equity-linked swap contracts	176,431	143,431	33,000	68,670	65,554	3,116
Forward rate agreements	–	–	–	85	1,597	(1,512)
Cross-currency interest rate swap contracts	7,074	39,286	(32,212)	8,159	24,867	(16,708)
Currency forward contracts	–	63,721	(63,721)	4,871	5,578	(707)
Total fair value	$ 189,502	$ 249,829	$ (60,327)	$ 86,140	$ 106,117	$ (19,977)
Less impact of master netting agreements	66,225	66,225	–	60,410	60,410	–
Total	$ 123,277	$ 183,604	$ (60,327)	$ 25,730	$ 45,707	$ (19,977)

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty Credit Risk Exposure	Counterparty Ratings			
	AAA	AA- to AA+	A to A+	Total
Gross positive replacement cost	$ –	$ 91,888	$ 97,614	$ 189,502
Impact of master netting agreements	–	(16,597)	(49,628)	(66,225)
Replacement cost (after master netting agreements)	$ –	$ 75,291	$ 47,986	$ 123,277
Replacement cost (after master netting agreements)—2002	$ –	$ 21,152	$ 4,578	$ 25,730
Number of counterparties				
March 31, 2003	0	8	7	
March 31, 2002	1	9	4	

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								2003		2002	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	Notional amount	Replacement cost	Notional amount	Replacement cost
Interest rate contracts												
$CDN payable— fixed	$ 54,897	5.57	$ 25,000	5.54	$ 22,195	6.01	$ —	—	$ 102,092	$ —	$ 150,792	$ —
[illegible]	24,963	3.62	40,000	4.43	—	—	45,000	5.38	109,963	3,236	291,159	2,612
[illegible]	150,000	n.a.	—	—	—	—	—	—	150,000	—	150,000	156
[illegible]	127,203	n.a.	253,755	n.a.	598,564	n.a.	1,118,892	n.a.	2,098,414	176,431	1,171,987	68,670
[illegible]	—	n.a.	—	—	18,812	n.a.	—	n.a.	18,812	2,761	57,459	1,587
	357,063		318,755		639,571		1,163,892		2,479,281	182,428	1,821,397	73,025
Forward rate agreements	—	—	—	—	—	—	—	—	—	—	1,400,000	85
Cross-currency interest rate swap contracts	—	n.a.	30,000	n.a.	13,915	n.a.	979,799	n.a.	1,023,714	7,074	596,168	8,159
Total interest rate contracts	357,063	—	348,755	—	653,486	—	2,143,691	—	3,502,995	189,502	3,817,565	81,269
Foreign exchange contracts												
Currency forward contracts	1,268,540	n.a.	—	—	—	—	—	—	1,268,540	—	2,009,089	4,871
Total foreign exchange contracts	1,268,540	—	—	—	—	—	—	—	1,268,540	—	2,009,089	4,871
Total	$ 1,625,603	—	$ 348,755	—	$ 653,486	—	$ 2,143,691	—	$ 4,771,535	$ 189,502	$ 5,826,654	$ 86,140
Less impact of master netting agreements	—	—	—	—	—	—	—	—	—	66,225	—	60,410
Total	$ 1,625,603	—	$ 348,755	—	$ 653,486	—	$ 2,143,691	—	$ 4,771,535	$ 123,277	$ 5,826,654	$ 25,730

n.a. – not applicable or weighted rates are not significant.

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent.

15. INTEREST RATE SENSITIVITY

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. These differences in duration cover both on- and off-balance sheet financial instruments. The Bank uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

16. CONTINGENT LIABILITIES AND COMMITMENTS

As at March 31, 2003:

(a) various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that the aggregate liability resulting from these proceedings will not be material.

(b) the undisbursed amounts on loans authorized total $874,594. These loan commitments are for an average period of three months ($74,147 in fixed, $800,447 in floating). The effective interest rates on these loan commitments vary from 5.25% to 18.0%. The undisbursed amounts on authorized venture capital investments total $56,495.

(c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

2004	$ 16,832
2005	16,926
2006	16,150
2007	15,091
2008	13,008
2009 - 2020	81,310
	$159,317

17. EMPLOYEE FUTURE BENEFITS

The Bank maintains defined benefit pension plans (the "Pension Plans") for eligible employees, which provide post-retirement benefits based on number of years of service and average final pay. The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits (the "Other Plans").

The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered pension plan		Supplemental pension plans		Other plans	
	2003	2002	2003	2002	2003	2002
Change in accrued benefit obligation						
Balance at beginning of year	$ 360,939	$ 348,124	$ 29,861	$ 26,057	$ 74,595	$ 68,271
Current service cost	13,054	12,501	1,002	909	3,112	2,653
Interest cost on benefit obligation	24,465	24,662	2,055	1,871	5,211	4,785
Benefits paid	(17,686)	(15,780)	(388)	(390)	(2,887)	(2,015)
Actuarial (gain) loss	(580)	(8,568)	(1,668)	1,414	1,536	901
Balance at end of year	380,192	360,939	30,862	29,861	81,567	74,595
Change in fair value of plan assets						
Balance at beginning of year	$ 452,534	$ 474,038	$ 3,827	$ 3,943	$ –	$ –
Employee contributions[1]	–	167	125	–	–	–
Employer contributions	–	–	–	131	633	398
Actual return on plan assets during the year	(12,539)	(5,891)	43	143	–	–
Benefits paid	(17,686)	(15,780)	(388)	(390)	(633)	(398)
Balance at end of year	422,309	452,534	3,607	3,827	–	–
Surplus (deficit) at end of year	$ 42,117	$ 91,595	$ (27,255)	$ (26,034)	$ (81,567)	$ (74,595)
Employer contributions after December 31	–	–	36	34	153	92
Unamortized transitional obligation (asset)[2]	(73,927)	(87,368)	516	249	1,972	2,169
Unamortized net actuarial loss	94,416	47,192	5,105	7,282	4,135	2,367
Accrued benefit asset (liability) at end of year[3]	$ 62,606	$ 51,419	$ (21,598)	$ (18,469)	$ (75,307)	$ (69,967)

1 Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized.

2 Transitional balances as at April 1, 2000 and past service costs from amendments to the plans are amortized on a straight-line basis over the active employees expected average remaining service life. The active employees' expected average remaining service life under the Pension Plans ranges from 6.8 years to 8.5 years The expected average remaining service life of the active employees covered by the Other Plans is 13 years for all but one of the plans, in which case it is 8.5 years

3 Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate

17. **EMPLOYEE FUTURE BENEFITS** (continued)

Pension and other post-retirement expense is included in Salaries and Staff benefits and is as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2003	2002	**2003**	2002	**2003**	2002
Plan expense (credit)						
Current service cost	**$ 13,054**	$ 12,501	**$ 1,002**	$ 909	**$ 3,112**	$ 2,653
Interest cost on benefit obligation	**24,465**	24,662	**2,055**	1,871	**5,211**	4,785
Expected return on plan assets	**(35,495)**	(37,258)	**(148)**	(190)	**—**	—
Amortization of transitional obligation (asset)	**(13,441)**	(13,441)	**(267)**	(267)	**197**	315
Amortization of net actuarial loss	**231**	—	**621**	497	**55**	2
Curtailment loss	**—**	—	**—**	—	**—**	765
Expense (credit) for the year ended March 31	**$ (11,186)**	$ (13,536)	**$ 3,263**	$ 2,820	**$ 8,575**	$ 8,520

The unamortized net actuarial loss in the Bank's registered pension plan is $94,416 which exceeds 10% of the fair value of plan assets by $52,185 at December 31, 2002. This excess will be amortized to pension expense over the expected average remaining service life of active employees, commencing April 1, 2003. Accordingly, the Bank's pension expense is expected to increase by approximately $6 million in its fiscal year ended March 31, 2004, due to the increase in loss amortization. The amount of loss amortization subsequent to March 31, 2004 will be principally affected by the difference between future investment results and the expected return on plan assets.

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental pension plans		Other plans	
	2003	2002	**2003**	2002
Fair value of plan assets	**$ 3,607**	$ 3,827	**$ —**	$ —
Accrued benefit obligation	**30,862**	29,861	**81,567**	74,595

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations (weighted averages) are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2003	2002	**2003**	2002	**2003**	2002
Significant actuarial assumptions						
Discount rate at beginning of year	**6.70%**	7.00%	**6.70%**	7.00%	**6.70%**	7.00%
Discount rate at end of year	**6.75%**	6.70%	**6.75%**	6.70%	**6.75%**	6.70%
Expected long term rate of return on plan assets[1]	**8.00%**	8.00%	**4.00%**	5.00%	**—**	—

1 The expected long-term return on plan assets is calculated using assets valued at fair market value.

The average rate of compensation increase is expected to be inflation which is assumed to be 3.25% (in 2002, 3.25%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to increase with inflation, plus a further increase of 2.5% in 2004 graded down by 0.5% each year to 1.0% in 2007 and subsequent years (in 2002 an increase of 3.0% for 2003 graded down by 0.5% each year to 1.0% for 2007 and subsequent years).

18. RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

19. SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into two principal business segments comprising Loans and Venture Capital activities. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income and the average assets of the Loan and Venture Capital portfolios are disclosed in Notes 5 and 7 respectively.

20. COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform with the presentation adopted in 2003.

To BDC's Board of Directors, maintaining sound and dynamic corporate governance is of utmost importance in effectively supervising the management of the Bank's business. In fulfilling its responsibilities, the Board is firmly committed to ensuring that the Bank operates according to an approach that combines its public policy goals with solid business principles.

The Board of Directors is composed of a maximum of 15 members: the Chairperson, the President and Chief Executive Officer, and 13 external directors. The Board members represent regional and sector diversity, giving the Board extensive knowledge of the needs of small and medium-sized business. In addition, the Board of Directors frequently meets in different locations in order to meet with clients and business communities across the country and gain a better understanding of the challenges specific to each region.

The Board of Directors and its committees assume the following governance responsibilities:

- Monitor the effectiveness of the Bank's corporate governance practices and approve any modifications.
- Approve the strategic orientation and the Corporate Plan, investment and operating budgets and all major policies.
- Strictly monitor achievement of goals by examining the Bank's performance in each of its areas of activity.
- Authorize compensation policies.
- Ensure a succession plan for senior management is in place.
- Ensure business risks are properly identified and appropriate risk management systems are implemented.
- Ensure financial reporting, internal control and audit systems meet the Board's needs in terms of effectiveness and integrity.

The Board of Directors met seven times in fiscal 2003. Three of these meetings were held in different locations across Canada. The Board of Directors also held their annual strategic meeting to review the Bank's strategic priorities and all key factors in its economic environment, and to initiate an open and dynamic discussion with senior management on the projected corporate plan.

The Board also held a special meeting following a similar exercise carried out two years earlier, in order to conduct a detailed and comprehensive review of its governance practices. This meeting enabled the Board members to examine the trends and developments in best practices, and to make changes to its governance practices to continue to comply with the most stringent current practices.

The Board of Directors continued to promote open communications with Management enabling senior management to actively participate in Board meetings. However, the Board also adopted the practice of holding, at the conclusion of each meeting, *in-camera* sessions in order to foster open and frank discussions exclusively among Directors.

The Board of Directors also reinforced its position of having all discussions and decisions concerning Bank governance take place at the level of the Board of Directors. The Board therefore decided that Bank governance responsibilities previously delegated to the Executive Committee would be returned to the Board of Directors. The Executive Committee continues to authorize loans and investments exceeding the limits delegated to Management.

Once they are appointed, the directors attend an information session and meet all the members of senior management so that they may receive all the information they require concerning the Bank's operations to properly carry out their responsibilities. In addition, the directors can directly access members of senior management at any time to obtain additional information in the course of their mandate. They are invited to participate in activities and professional development workshops on corporate governance or other topics related to their various responsibilities.

The Board of Directors delegates part of its work to five committees. The Board ensures that these five committees are composed exclusively of external directors, with the exception of the Executive Committee and the Pension Fund Committee, and the Trustees of the Pension Fund, which include the Chairperson of the Board and the President and Chief Executive Officer. These committees review and supervise the various matters referred to them by the Board and make recommendations they deem appropriate. All the committees are required to report regularly to the Board of Directors on their activities and submit the appropriate recommendations and resolutions for approval by the Board. A brief description of their main responsibilities and achievements for fiscal 2003 follows.

Executive Committee

The Executive Committee met 18 times in fiscal 2003. It approved loans and venture capital investments that exceeded Management's delegated authority.

Chairperson: Cedric E. Ritchie
Members: James A. Durrell, Terry B. Grieve, V. Peter Harder, Roslyn Kunin, Michel Vennat

Governance Committee

The Governance Committee administers the Bank's system of governance. It reviews governance best practices on a continuing basis and makes recommendations of appropriate changes to enhance the effectiveness of the Bank's system of governance. This review includes the methods and processes by which the Board fulfills its duties including: communication process between the Board and Management, number and content of meetings, material provided to Directors and resources available to Directors. The Committee also determines the structure, the mandate and the membership of the Board's committees. In 2003, the Committee organized a full day workshop with members of the Board and senior management to benchmark its governance system with all the recent best practices and legislation developed during the course of the last months.

Chairperson: Cedric E. Ritchie

Members: Cynthia Desmeules-Bertolin, Léandre Cormier, Jennifer Corson, James A. Durrell, Barbara Stymiest

Human Resources Committee

The Human Resources Committee supports the Bank's belief that its success lies in its people. Through HR strategy based of fostering a culture of engagement, learning and growth, the Bank will continue to attract, develop and retain productive and motivated employees who take pride in delivering excellent service to customers.

During fiscal 2003, the Committee monitored the progress of key HR initiatives including the implementation of a new Career Management Process, the President's Leadership Forum, and the implementation of its Flexible Benefit Program. In addition, the Committee reviewed the Bank's Corporate Succession Plan and the compensation policies and payments.

The HR Committee supports the Bank's on-going commitment to learning and development of its leaders to ensure organizational success over the long term.

Chairperson: Gordon J. Feeney

Members: Leo E. Cholakis, Léandre Cormier, Jennifer Corson, Oryssia Lennie

Audit Committee

In fiscal 2003, the Audit Committee met four times. The Committee oversees financial reporting, corporate financing, treasury management, performance measurement, internal control systems and the code of conduct. Its members help the Board safeguard the Bank's assets and manage its resources. It reviews the quarterly financial results and oversees the external auditors' involvement in the annual financial audit. It also reviews the work of the internal audit and inspection team and reviews the financial statements in the Annual Report prior to Board approval. The Committee continued its practice of meeting the internal and external auditors in private sessions and discussed the independence of auditors including the type and extent of non-audit mandates. It continued to review the responsibilities of audit committees set forth by different authorities and commenced initial discussions for the Special Examination.

Chairperson: Terry B. Grieve

Members: N. Murray Edwards, Gordon J. Feeney, Roslyn Kunin, Oryssia Lennie, Barbara Stymiest

Pension Fund Committee and the Trustees of the Pension Fund

The Pension Fund Committee and the Trustees of the Pension Fund monitor the pension fund's activities, ensure that the fund is administered and financed in accordance with applicable legislation, and ensure that any changes to the plan reflect the Committee's terms of reference.

In fiscal 2003, the Committee met four times to review the pension plan's actuarial assumptions and the performance of the fund's investment managers. Changes were made to the mix of certain asset classes and to the management structure to ensure that they reflected changing opportunities that could enhance the pension fund's financial performance and stability. Members ensured that the Bank received excellent service from external suppliers administering the pension fund. Despite continued difficult domestic and international stock markets, which had a negative impact on the fund's performance, the fund has continued to report a surplus for the year ended December 31, 2002.

Chairperson: Leo E. Cholakis

Membres: Clément Albert, Cynthia Desmeules-Bertolin, Léandre Cormier, Mary Karamanos, Roslyn Kunin, Yves Milette, Cedric E. Ritchie, Michel Vennat

Board of Directors

[illegible] Chairman of the Board
[illegible] of Canada, Toronto, Ontario

[illegible] O.C., President and Chief Executive Officer
[illegible] ent Bank of Canada, Montréal, Quebec

[illegible]
[illegible] Halifax, Nova Scotia

[illegible]
[illegible] Scoudouc, New Brunswick

[illegible] L.B., Managing Director
[illegible] Winnipeg, Manitoba

[illegible]-**Bertolin,** Senior Advisor
[illegible] ton, Alberta

[illegible] ty Minister
[illegible] Diversification, Edmonton, Alberta

Terry B. Grieve, Principal
Ventures West Management Inc., Saskatoon, Saskatchewan

Gordon J. Feeney, Company Director
Toronto, Ontario

N. Murray Edwards, President
Edco Financial Holdings Ltd., Calgary, Alberta

V. Peter Harder, Deputy Minister
Industry Canada, Ottawa, Ontario

Roslyn Kunin, Ph.D., C.M., President
Roslyn Kunin & Associates Inc., Vancouver, British Columbia

James A. Durrell, President
Capital Dodge Chrysler Jeep Ltd., Ottawa, Ontario

Barbara Stymiest, Chief Executive Officer
TSX Group, Toronto, Ontario

Our sincere appreciation is extended to Peter G. Jollymore and Roger Plamondon for the role they played in the development of the Bank. Their term expired in August 2002.

Officers

< **Michel Vennat,** O.C., Q.C.
President and Chief
Executive Officer

< **André Bourdeau**
Executive Vice-President
Financial Services

> **Edmée Métivier**
Executive Vice-President
Integrated Risk and
Resources Management

< **Michel Ré**
Executive Vice-President
Investments

< **Guy G. Beaudry**
Senior Vice-President
Corporate Affairs

> **Michel Bourret**
Senior Vice-President
Operations, Quebec
and Atlantic Region

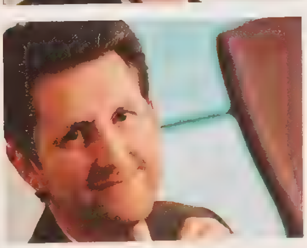
> **Simone Desjardins**
Senior Vice President
Operations
Ontario Region

< **Charlotte Robb**
Senior Vice President
Operations, Prairies
and Western Region

< **Jacques Lemoine**
Senior Vice-President
Credit

> **Michel Desjardins**
Senior Vice-President
BDC Consulting Group

^ **Alan B. Marquis**
Senior Vice-President
Finance and Chief
Financial Officer



< **Richard Morris**
Vice-President
Audit and Inspection

> **Clément Albert**
Vice-President
and Treasurer

OPERATIONAL STATISTICS

for the year ended March 31 *($ in thousands)*

	2003	2002	2001	2000	1999
LOANS AND VENTURE CAPITAL					
Total financing committed*					
as at March 31					
Amount	**$ 8,025,719**	$ 7,201,137	$ 6,352,838	$ 5,641,060	$ 5,090,228
Number of customers	**21,897**	20,780	19,664	18,667	17,923
Committed to lending customers*					
as at March 31					
Amount	**$ 7,595,964**	$ 6,826,948	$ 6,056,761	$ 5,445,990	$ 4,933,237
Number of customers	**21,733**	20,625	19,533	18,568	17,833
Committed to investment customers					
as at March 31					
Amount	**$ 429,755**	$ 374,189	$ 296,077	$ 195,070	$ 156,991
Number of customers	**164**	155	131	99	90
Total financing authorized*					
.et amount	**$ 2,124,596**	$ 1,845,425	$ 1,647,032	$ 1,428,312	$ 1,261,891
.umber	**6,387**	5,806	5,173	4,749	4,239
Lending authorized*					
Net amount	**$ 2,031,907**	$ 1,739,404	$ 1,532,870	$ 1,365,516	$ 1,220,084
.umber	**6,326**	5,743	5,102	4,687	4,192
Investments authorized					
Net amount	**$ 92,689**	$ 106,021	$ 114,162	$ 62,796	$ 41,807
Number	**61**	63	71	62	47

FINANCIAL STATISTICS

	2003	2002	2001	2000	1999
Net interest and other income as a percentage of average loan portfolio	**5.8%**	5.9%	5.8%	5.6%	5.7%
Provision for credit losses as a percentage of average loan portfolio	**1.5%**	1.7%	2.0%	2.0%	1.4%
Operating and administrative expenses as a percentage of average loan portfolio	**2.8%**	2.9%	3.1%	3.0%	3.2%
Loans operations productivity ratio	**47.8%**	48.5%	52.6%	54.7%	57.4%

CONSULTING GROUP

	2003	2002	2001	2000	1999
Revenue from activities	**$ 18,221**	$ 18,189	$ 17,724	$ 19,396	$ 17,823

*Restated to exclude Global Line of Credit® and Student Business Loans.

Five-year Operational and Financial Summary

FINANCIAL INFORMATION

($ in thousands)

	2003	2002	2001	2000	1999
STATEMENT OF INCOME					
for the year ended March 31					
Net income (loss)					
Loans	**$ 94,507**	$ 80,458	$ 37,254	$ 25,320	$ 42,124
Venture Capital	**$ (59,485)**	$ (20,977)	$ 56,168	$ 80,039	$ (4,124)
Consulting Group	**$ (3,142)**	$ (5,748)	$ (5,100)	$ (4,254)	$ (5,216)
Net Income	**$ 31,880**	$ 53,733	$ 88,322	$ 101,105	$ 32,784
BALANCE SHEET					
as at March 31					
Loans, net of allowance for credit losses	**$ 6,288,636**	$ 5,669,513	$ 5,054,254	$ 4,608,188	$ 4,248,745
Venture capital investments, net of accumulated write-down of investments	**$ 301,945**	$ 271,064	$ 206,360	$ 145,107	$ 110,298
Total assets	**$ 7,791,359**	$ 6,897,204	$ 6,225,518	$ 5,666,333	$ 5,098,461
Total shareholder's equity	**$ 1,170,017**	$ 960,320	$ 923,304	$ 783,826	$ 583,832
Total liabilities	**$ 6,621,342**	$ 5,936,884	$ 5,302,214	$ 4,882,507	$ 4,514,629
Average loan portfolio	**$ 6,402,284**	$ 5,749,376	$ 5,194,279	$ 4,736,601	$ 4,281,607

Allowance for Credit Losses
Represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

Debt to Equity Ratio
A measure to ensure the Bank operates within its statutory limitations on debts, calculated as the aggregate of the borrowings and contingent liabilities over the total shareholder's equity. The statutory limitations of the Bank's debt to equity ratio may not exceed 12:1.

Derivatives Financial Instruments
Contracts whose value is "derived" from interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct Investments
Represents the investments made by the Bank directly in the investee companies.

Productivity Ratio
A measure of the efficiency with which the Bank incurs expenses to generate income on its loan operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income. A lower ratio indicates improved efficiency.

General Allowance
Established by management to recognize credit losses in the existing performing loan portfolio, which have occurred as at the balance sheet date, but have not yet been specifically identified on an individual loan basis.

Hedging
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired Loans
Loans where, in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Investment Income
Income generated from the Bank's venture capital investments, such as interest, dividends, and net realized gains on divestitures.

Master Netting Agreement
Is a standardized bilateral contract that enables trading counterparties to agree to net collateral requirements; and, in a close-out situation, settlement amounts related to underlying master trading contracts relating to sales and purchases of financial instruments. The Master Netting Agreement offsets positive balances of one transaction with negative balances of another.

Net Interest and other Income
The difference between what is earned on loan portfolio assets and securities, and what is paid on borrowings.

Net Margin
Is the net interest and other income earned by the performing loan portfolio, expressed as a percentage of the total average loan portfolio.

Performing portfolio
Loans for which there is reasonable assurance of the timely collection of principal and interest.

Permanent Impairment
Investments become permanently impaired, in management's opinion, when one or more of the following conditions apply: (i) a prolonged period during which the quoted market value of the investment is less than carrying value; (ii) suspension of trading in the investee securities; (iii) continued and severe losses that were not planned for at time of investing; (iv) liquidity or going concern problems that cannot be resolved in the immediate future; (v) material negative deviation from budget or plan. This would include not only financial data but also qualitative data about investee and all aspects of its business, e.g.: product, markets, technology, etc.

Provision for Credit Losses
A charge to income that represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Return on Common Equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity.

Revenue from Consulting Group
Fees from services provided by the Bank's national network of consultants to assess, plan, and implement result-driven, cost-effective management solutions.

Specific Allowance
Established by management to recognize credit losses in the existing loan portfolios, which have occurred and are identified on an individual loan basis, as at the balance sheet date.

Swaps
Interest rate swaps are agreements to exchange streams of interest payments; typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts. Cross-currency swaps are agreements to exchange payments in different currencies over pre-determined periods of time.

Write-down
To recognize the loss when the value of a venture capital investment is permanently impaired.

Other definitions in the MD&A:

> Economic Capital—(page 18)
> Environmental Risk—(page 18)
> Foreign Exchange Risk—(page 20)
> Interest Rate Risk—(page 20)
> Internal Rate of Return (IRR)—(page 15)
> Issuer/Counterparty Risk—(page 19)
> Liquidity Risk—(page 19)
> Loan Credit Risk—(page 18)
> Loan Portfolio Concentration Risk—(page 18)
> Market Risk—(page 19)
> Operational Risk—(page 20)

Business Development Bank of Canada
BDC Building | 5 Place Ville Marie Suite 400 | Montréal, Quebec H3B 5E7 | 1 888 INFO-BDC (1 888 463-6232)
www.bdc.ca

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